Advanced Medical Solutions Group plc

Advanced Medical Solutions Group plc
Annual Report and Accounts 2010

Advanced Medical Solutions Group

is a global business providing innovative products and brands in the areas of accelerating healing and managing wounds, minimising adverse surgical outcomes and sealing and closing tissue.

- Applied Innovation
- Manufacture
- Supply

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Advanced Medical Solutions Group at a glance

258
Employees

With our broad range of applications and multiple technology platforms, AMS has created a unique market position.

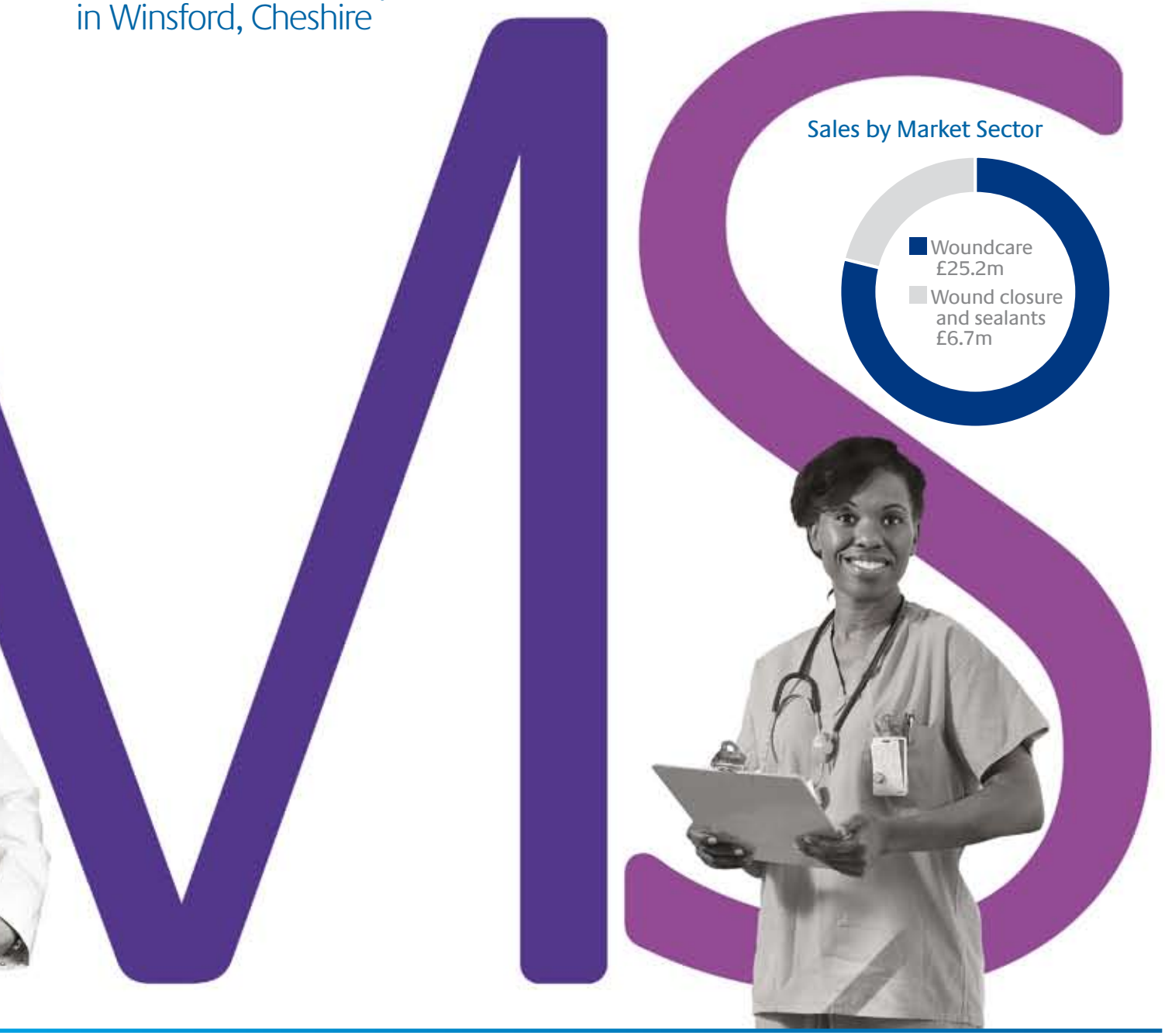
We develop, manufacture and market innovative products in the areas of:

- > Accelerating healing and managing wounds
- > Minimising adverse surgical outcomes
- > Sealing and closing tissue

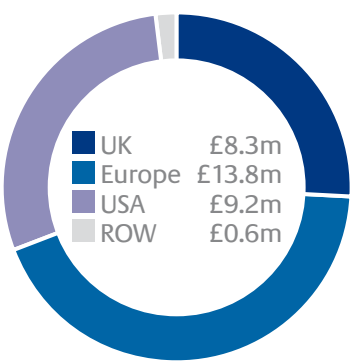
138,500sq ft

new world class facility
in Winsford, Cheshire

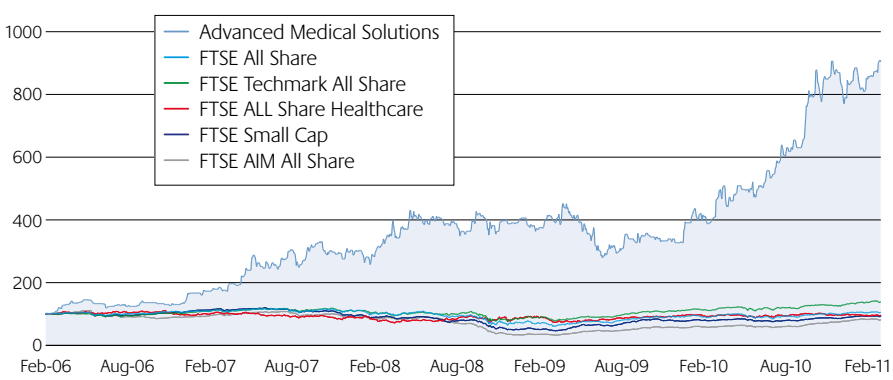
Sales by Market Sector



Sales by Geographic Sector

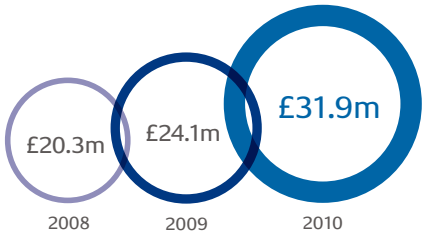


Five Year Relative Share Price Performance



Group revenue

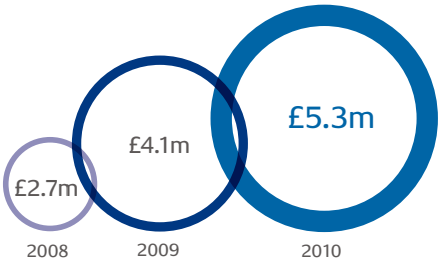
up 32% at £31.9m



Profit from operations

(pre-exceptional items[2])

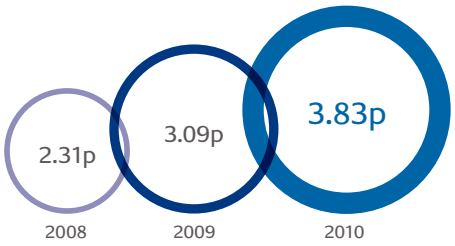
up 31% at £5.3m



Basic earnings per share

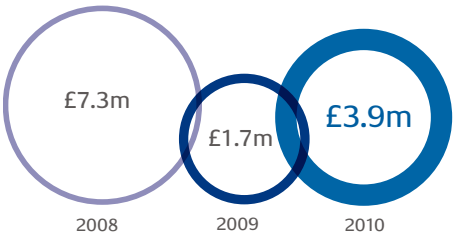
(pre-exceptional items[2])

up 24% at 3.83p



Net funds[3]

£3.9m at 31 December 2010



Business Highlights

- Successful US LiquiBand® launch exceeding first full year expectations
- New facility in Winsford now fully operational, positioning the Group for strong growth
- Integration of foam business delivering strong performance from new technology
- ActivHeal® range continuing to gain ground following successful rebranding
- Silver alginate continuing to gain market share

Financial Highlights

- Revenue increased by 32% to £31.9 million (2009: £24.1 million) at actual and constant currency[1]
- Profit from operations (pre-exceptional items[2]) up 31% to £5.3 million (2009: £4.1 million)
  Profit from operations (post-exceptional items[2]) up 81% to £4.3 million (2009: £2.4 million)
- Basic earnings per share (pre-exceptional items[2]) up 24% to 3.83p (2009: 3.09p)
  Basic earnings per share (post-exceptional items[2]) increased 64% to 3.17p (2009: 1.93p)
- Strong cash generation in second half of year - net funds[3] of £3.9 million at 31 December 2010 (2009: £1.7 million)
- Maiden final dividend proposed at 0.38p per share

1. Constant currency removes the effect of currency movements by re-translating the current year's performance at the previous year's exchange rates
2. Exceptional costs of £1.0 million were incurred on the new Winsford facility (2009: Exceptional costs of £0.8 million were incurred on an aborted acquisition and £0.9 million related to the Winsford facility)
3. Net funds is defined as cash and cash equivalents plus short term investments less financial liabilities

Accelerating healing and managing wounds

Silver alginate

Silver is widely recognised as a safe and effective broad spectrum anti-microbial agent for infection control. We have developed a range of wound dressings that incorporate silver into our proprietary calcium alginate technology. These dressings are suitable for moderate to heavily exuding infected wounds. Ongoing technical and clinical support for our silver alginate product range has continued to drive growth in our silver dressings business and has helped our partners capture a 20% global market share in just five years, second only to the dominant leader.

Foam

In October 2009 we strengthened our position in hydrophilic polyurethane foam, by acquiring the Corpura B.V. business based in The Netherlands. In 2010, we saw the first full year contribution from this business. Foam is one of the fastest growing segments of the advanced woundcare sector and provides an ideal platform for delivering actives and anti-microbials to help accelerate wound healing. Foam revenues have benefited from a number of product launches with key partners.

ActivHeal®

ActivHeal® is a cost-effective range of products supplied directly to the NHS as first-line therapy for routine wounds, generating significant cost savings and equivalent clinical performance over branded equivalents.

Our compelling proposition has increased sales by **21%** as the NHS responds to budgetary pressure.

ActivHeal®

Following a relaunch of the product range, in new, distinctive and easily recognisable packaging, ActivHeal® is a product of first choice when it comes to cost-effective dressing of non-infected wounds.

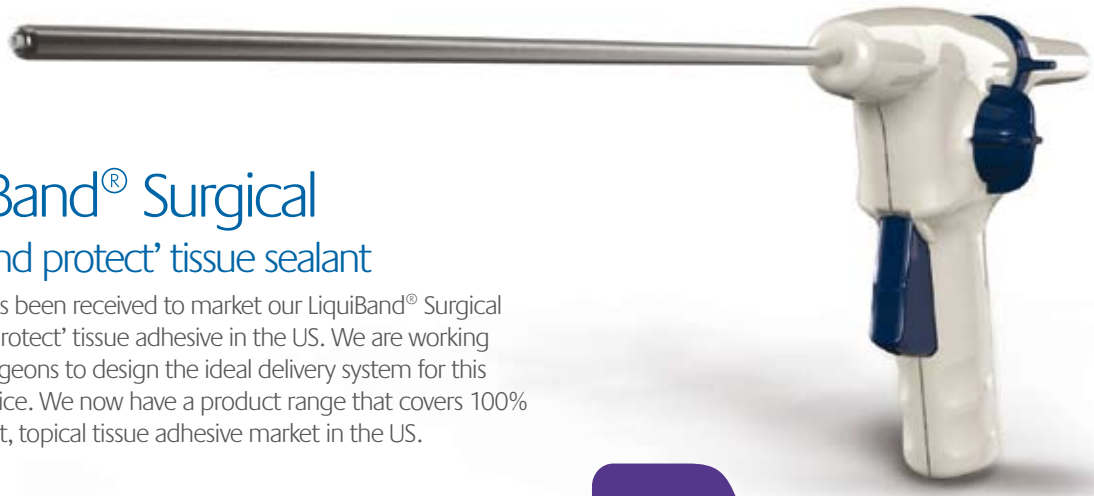
Market size and growth rate

Advanced woundcare market

Sizes and growth rates
(exclude negative pressure wound therapy)

> Advanced woundcare	$3750m	+4%
> Global fibre market	$370m	+5%
> Global foam market	$1000m	+12%
> NHS	£120m	+2%

Minimising adverse surgical outcomes



LiquiBand® Surgical

'close and protect' tissue sealant

Approval has been received to market our LiquiBand® Surgical 'close and protect' tissue adhesive in the US. We are working with key surgeons to design the ideal delivery system for this surgical device. We now have a product range that covers 100% of the target, topical tissue adhesive market in the US.

Surgical sealants

Our clinically proven range of surgical sealants are an essential tool in the fight to reduce surgical site infections. Prepping and draping are an important part of any pre-op routine but do not completely sterilise a patient's skin. Our range of surgical sealants are proven to seal and immobilise the bacteria that survive the patient prep, preventing them from contaminating the surgical incision site. Finding the right partners to successfully access the Operating Room is a focus for the management team.

Internal fixation device

Progress continues to be made in the development of an implantable adhesive device for the internal fixation of materials, such as hernia meshes, via minimally invasive surgery. Successful completion of this project will allow entry of our tissue adhesive range into the high-value internal sealants market, currently estimated to be valued around $600m per year.

Sealing and closing tissue

The launch of LiquiBand® into the key $220 million US market has been a pivotal milestone for the Group

Progress has been excellent in our first 12 months of promotional activity. A high number of clinical evaluations took place in 2010, with hospitals trying the product for the first time. We are pleased with both the outcome of the evaluations and the speed with which hospitals are converting to regular usage.

We have four distribution partners promoting LiquiBand® including Cardinal Health, which has a substantial sales force targeting the Acute Care segment (80% of the US tissue adhesives market), and the largest US pharmaceutical distributor targeting the Alternate Site segment (the other 20% of the market). We are well placed to challenge the dominant market leader.

With the approval of LiquiBand® Surgical 'close and protect' tissue sealant received for the US, we now have a full range of products that address the total tissue adhesive market.

Market size and growth rate

Wound closure and sealants market

Sizes and growth rates

> US	$220m	+8%
> UK	£8m	+3% (including Operating Room)
> Europe	£15m	+5%
> ROW	£5m	+7%

LiquiBand®

Our ongoing advertising and marketing investment will be enhanced through a series of clinical studies to support our marketing claims and product positioning.

LiquiBand®

A range of LiquiBand® products has been developed to address the $250m global topical tissue adhesives market.

Excellent progress in the US via **4** **distribution partners** covering all major sales channels.

Strong sales in Europe via **26** distribution partners.

Building strong partnerships

We have strong relationships with the leading global healthcare suppliers

How we operate

Branded partners

Working with most of the world's leading woundcare companies, our products are distributed globally. We believe that the most effective way of commercialising new concepts and technologies on a global basis is through strategic partnerships with major branded companies.

Private label

We also provide own-label products to distributors driven by the increasing cost constraints faced by healthcare providers. These products allow savings to be made in the treatment of routine wounds.

Distributors

Our LiquiBand® range of tissue adhesives is sold under the LiquiBand® brand by distributors and marketing partners in Europe and the US.

Quality & regulatory

One of the continuing strengths of the Group is its ability to work with different regulatory bodies throughout the world to gain regulatory approval for our products. It is pleasing that since 2005 we have successfully gained 33 approvals for both ourselves and our partners.

The Group's manufacturing facilities are in compliance with ISO 13485.

New site

The new Winsford facility was officially opened in January 2011. It provides the capacity to support the growth of the Group and a facility that addresses the increasingly stringent demands being placed on medical device companies by various regulatory bodies. With nearly £10 million of investment made over the last two years, it demonstrates our long term commitment to our woundcare partners.

We continue to improve our methods of working and are now taking the opportunity to embrace the principles of lean manufacturing, positioning the Group for improved future operational efficiency.

THIS SOFT
10 x 10cm NON-
ADHESIVE FOAM
IS PROUDLY

Strategic Overview

Chris Meredith outlines his strategy since taking over as Chief Executive Officer

Q What do you see as your main priorities going forward?

A We aim to be recognised as the preferred producer of innovative products in the areas of: accelerating healing and managing wounds; minimising adverse surgical outcomes; and sealing and closing tissue. We now have a world-class facility in Winsford, where we are working on delivering the operational efficiencies and resulting margin benefits that we believe are possible there.

LiquiBand®, ActivHeal®, silver alginate and foam in particular all had a good year in 2010 and it is important to support these, our key growth drivers, going forward.

We are increasing our range of products for the Operating Room market and this is a key focus area for us, particularly in terms of identifying the most effective routes to market.

We continue to invest in our R&D team which is working on a number of exciting new products, such as differentiated foams, active woundcare dressings and internal adhesive applications.

Q What do you see as the key organic growth drivers for AMS?

A Our key growth drivers for AMS are LiquiBand® in the US and, within Advanced Woundcare, our ActivHeal®, silver alginate and foam products.

Looking at the bigger picture, the global economic climate means that cost efficiency in conjunction with product effectiveness, is increasingly more important. I know that our products deliver on both these fronts, especially ActivHeal® within the NHS but also LiquiBand® in the US.

Further out, starting later this year, we expect to see the first of a number of new products coming out of our R&D pipeline, as part of our drive to provide partners and customers with innovative new products.

Q You are paying a maiden dividend. Why now and what is your dividend policy going forward?

A The dividend is a statement of our confidence in the business. We are now at a stage of sufficient profitability and cash generation that we can look at returning additional value to our shareholders. We plan to operate a progressive dividend policy, with an approximate one-third two-thirds split between interims and finals, whilst ensuring that the business has adequate resources to fund our growth plans.

Q How are you addressing any gaps in AMS' technologies or access to markets?

A As I mentioned earlier, we are putting a lot of emphasis on addressing the best routes into the Operating Room. This is particularly important following the latest FDA approval for our LiquiBand® Surgical 'close and protect' tissue sealant device but also incorporates InteguSeal® and the internal adhesive applications coming out of R&D.

In Advanced Woundcare, we believe the future will lie in antimicrobial and 'active' wound dressings, and we continue to make good progress on these in partnership with universities and others.

We are a strongly cash generative business with no debt. Combined with available bank facilities, we have the flexibility to act on opportunities we identify to either license in complementary technologies or acquire businesses which can help us with technologies or routes to market. The successful acquisition and integration of Corpura demonstrates that we can deliver on this strategy, adding to our current capabilities.

Q What are the key challenges ahead?

A We have leading market shares in the UK and Europe, and we intend to maintain these leadership positions.

Clearly the US market is a major opportunity for LiquiBand® and the first full year gives us cause for optimism, but we do not underestimate the challenge of taking market share from our major competitor.

Elsewhere in the world, we have regulatory approvals in Japan and Canada for LiquiBand® and have started selling through partners, but these are small early stage markets and are not expected to be significant contributors for some time. We are also pursuing regulatory approvals in a number of other countries.

As mentioned before, the Operating Room segment is a key focus area. We are working with US surgeons on the appropriate design for our LiquiBand® Surgical 'close and protect' tissue sealant device and we are also looking to identify the most effective routes to market.

More generally, there is increased competition and pricing pressures in all our markets, but we believe our approach and our technologies give us significant advantages over others. We understand our markets and we listen to our partners and to healthcare professionals who feed their views back to us, allowing us to constantly improve our offering.

Our Vision

With an exciting range of Operating Room focused products now complementing the base woundcare dressings and Emergency Room products, AMS continues to benefit from having diverse and plentiful growth opportunities.

As we continue the evolution of the Group, the vision is to strengthen our current position in each of our key focus areas of woundcare dressings and surgical devices, and ultimately become recognised as the preferred producer of innovative products and brands in the areas of:

> accelerating healing and managing wounds,
> minimising adverse surgical outcomes and
> sealing and closing tissue.

Chairman's Statement

Dr. Don Evans
Chairman

AMS has a unique position in the advanced woundcare market. Our comprehensive range of material technologies with strong intellectual property allow us to provide our global woundcare partners with a breadth of product applications second to none.

I am delighted to inform investors that 2010 was an outstanding year in which AMS continued to make excellent progress in building a major global medical device business. In addition to delivering strong revenue and profit growth, a number of key commercial and operational milestones, designed to fuel future growth, were achieved in the year.

Financial Highlights

Group revenue was up 32% to £31.9 million, profit from operations before exceptional items was up 31% to £5.3 million, and profit from operations after exceptional items was up 81% to £4.3 million.

The business continues to generate strong levels of cash at the operational level, with net cash inflow from operations before exceptional items up 116% to £8.1 million. Net cash inflow from operations after exceptional items was up 244% to £7.1 million. Even after further investment in the new Winsford facility, plant and equipment and paying the final deferred consideration for the acquisition of Corpura B.V., net funds at year end were up 129% to £3.9 million.

Key Achievements

Entry into the key $220 million US topical skin adhesive market with our LiquiBand® tissue adhesive has been a pivotal milestone for the Group. Whilst we were confident of success due to the positive competitive performance of this product range in Europe over many years, the level of interest, clinical evaluations and subsequent initial product uptake in our first full year of US sales has exceeded our expectations. We are well placed to continue to grow our US market share and to build a strong global brand for our LiquiBand® business.

In Advanced Woundcare, our silver alginate range, our foam based wound dressings and our ActivHeal® value range have also continued to make good progress. The successful integration of Corpura B.V. has bolstered our position in polyurethane foam, the largest, fastest growing segment of the advanced woundcare market.

Our new world-class Winsford facility, officially opened in January 2011, provides the Group with the capacity to support substantially increased revenues, whilst addressing the ever more stringent demands being placed on medical device companies by the various regulatory authorities. It also provides opportunities to enhance margins as the benefits of the new facility and investment in new equipment are realised.

Board

A number of Board changes were made during the year.

I stepped down as Chief Executive Officer and became Chairman of the Group, as of 1 January 2011.

Chris Meredith was appointed as Chief Executive Officer effective from 1 January 2011. Having joined AMS in July 2005 as Commercial Director, Chris was appointed to the Board in April 2006, became Managing Director of Advanced Woundcare in 2008 and then Chief Operating Officer of the Group in January 2010.

Dr. Geoffrey Vernon retired as Chairman at the end of 2010. The Board would like to thank Geoffrey for his input and guidance in helping to make AMS the successful company that it is today. We wish him all the best for the future.

In March 2010, Penny Freer joined the Board as Senior Independent Non-Executive Director, and Steve Harris stepped down from the Board at the AGM in June 2010. The Board would like to thank Steve for his significant contribution to AMS during his nine years as a Non-Executive Director.

Dividends

As previously indicated, the Board will recommend the introduction of a maiden final dividend relating to the 2010 results. Whilst AMS's focus remains on capital growth, the Board feels it is appropriate to propose a dividend, given the cash generative nature of the business and to reflect the stage of the Group's development. The proposed maiden final dividend will be 0.38p per share which will be paid on 10 June 2011 to shareholders on the register at close of business on 13 May 2011.

Employees

On behalf of the Board and our shareholders, I would like to thank all AMS employees for their considerable efforts in delivering our 2010 results, and for all their contribution in helping us to move into our new facility with so little disruption.

Outlook

I am pleased to report that 2011 has started well for the Group with both our leading brands, LiquiBand® and ActivHeal®, continuing to perform strongly. We also continue to see growing demand from our partners for our foam and silver alginate products.

In addition to the positive prospects for our organic business, our continued investment in R&D and our strong balance sheet allows us to refresh and broaden the product range and technology base, as well as evaluate opportunities to strengthen our distribution in key markets.

Overall, the outlook for the Group remains very positive.

Dr. Don Evans
Chairman
20 April 2011

Our new spinning-line, Winsford, Cheshire

Chief Executive Officer's Report

Chris Meredith
Chief Executive Officer

I am pleased to be providing this, my first Chief Executive Officer's Report, on the back of another very positive year of further development for the Group.

With our broad customer base, including almost all major woundcare companies, and our multiple routes to market, we continue to occupy an enviable position in the markets within which we operate. Enhanced by a combination of two strong emerging brands (LiquiBand® and ActivHeal®), and three major base technologies (fibres, foams and tissue adhesives), the potential for further growth remains significant.

Vision

With an increasing range of Operating Room focused products now complementing our base woundcare dressings and Emergency Room products, AMS continues to benefit from having diverse and plentiful growth opportunities. As we continue the evolution of the Group, the vision is to strengthen our current position in each of the key focus areas, namely advanced woundcare dressings, tissue adhesives and surgical sealants, and ultimately become recognised as the preferred producer of innovative products and brands in the areas of:

- Accelerating healing and managing wounds;
- Minimising adverse surgical outcomes; and
- Sealing and closing tissue.

2010

Advanced Woundcare

Revenue from our advanced woundcare product range, aimed at accelerating healing and managing the complications of chronic wounds, increased 30% in 2010, with each of our key growth drivers contributing to the success. Sales of our silver alginate product range were up 19%, the ActivHeal® brand grew 21% and foam grew by 270%.

Ongoing technical and clinical support for our silver alginate product range has continued to drive growth in our silver dressings business and has helped our partners capture a 20% market share in just five years, second only to the dominant market leader.

With austerity measures at the forefront of NHS plans, our ActivHeal® brand continues to deliver real savings to the NHS without any compromise on clinical outcome or patient care. Following a re-launch of the product range in new, distinctive and easily recognisable packaging, we continue to make progress in establishing ActivHeal® as a product of first choice when it comes to cost effective dressing of non-infected wounds.

With foam revenues benefiting from a number of new product launches with key partners in 2010, it is clear we have a very well accepted base technology from which to drive further organic growth through innovation and product differentiation.

The move into the new facility in Winsford was a considerable achievement and was successfully completed without severe disruption to operations as evidenced by the 11% like-for-like growth of the Advanced Woundcare business (excluding Corpura B.V.) during the construction period. The effort and commitment shown by everyone in the business cannot be underestimated. With the new site operational, management has taken the opportunity to embrace the principles of lean manufacturing, positioning the Group for improved future operational efficiency.

Research and Development has been focused on our new technology platform, foam, with the launch of new sizes and shapes and the development of composite dressings that elegantly combine different layers together in one dressing. Work has also progressed on our anti-biofilm product development programme and on our active dressings.

Wound Closure and Sealants

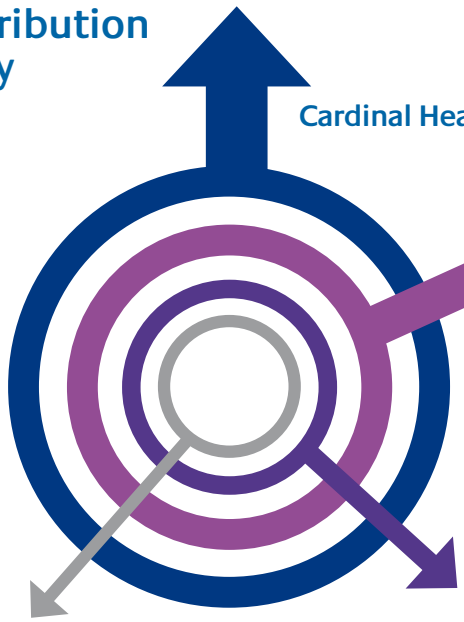
Our product range designed to seal and close tissue has also delivered strong growth to the Group in 2010. Revenues increased 42% to £6.7 million (2009: £4.7 million) with US market entry being a pivotal milestone for the business.

We are very pleased with the progress from our first 12 months of promotional activity in the US. As was to be expected, a high number of clinical evaluations took place in 2010 as hospitals tried the LiquiBand® product for the first time. We are pleased with both the outcome of these evaluations and the speed with which a growing number of individual hospitals are converting to regular usage. Whilst we still have a significant major competitor to contend with, progress in our first year has exceeded our initial expectations. It is currently too early to say whether the second year of sales will follow the trend of our previous product launches and temporarily drop back before forging ahead again in year three.

We received regulatory approvals for LiquiBand® in both Canada and Japan during 2010, and our products have since been launched in both countries via local partners. Elsewhere, the regulatory process continues in a number of other markets.

An area for further improvement is the growth rate and sales performance for our devices aimed at minimising adverse surgical outcomes in the Operating Room. Progress with IntéguSeal® through our marketing partner Kimberly Clark, has failed to meet both our and our partner's original launch expectations and as such, one of our remaining strategic challenges is how we address the routes to market and sales success for our surgically orientated Operating Room product range. This is increasingly important given we received recent confirmation that our LiquiBand® Surgical 'close and protect' tissue sealant device has just been granted approval in the US.

US Distribution strategy

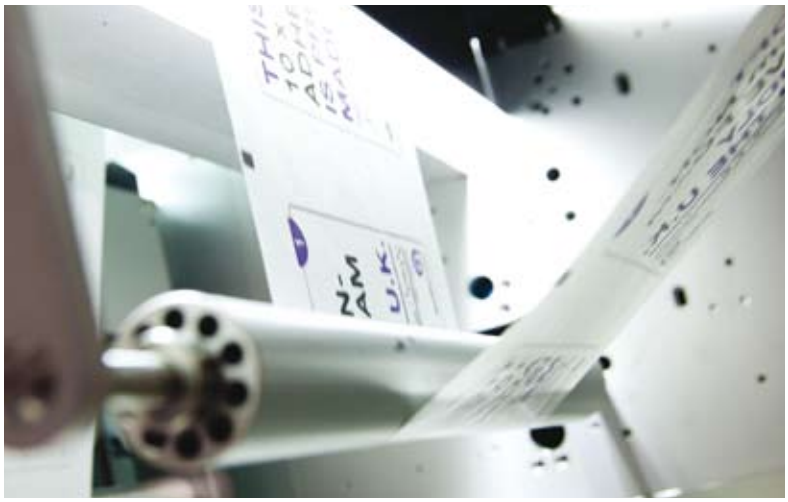


Cardinal Health (Acute Focus)

Complementary Regional Partner
(Acute Focus)
provides access to key acute accounts

Specialist Distribution Partner
provides logistic capabilities and direct order fulfilment for small centres and individual clinicians

Alternate Site Focus
largest US Pharmaceutical Distributor provides access to alternate site market



Chief Executive Officer's Report continued

We are now working with key surgeons to design the ideal delivery system for this surgical device and expect to launch this into the market in late 2011, which then gives us a product range covering 100% of the target market.

Strategy

Our strategy has four key elements:

- Maximising the value of Group brands;
- Strengthening our commitment to support partners and develop innovative woundcare products;
- Improving our ability to generate growth from our Operating Room product range; and
- Supplementing organic growth through further licensing and acquisition activity.

Brand building

We have already taken steps to enhance and simplify our corporate identity, both for major customers and employees. We have rebranded our two acquired businesses, Medlogic Global and Corpura B.V., with all our businesses now trading under the Advanced Medical Solutions name.

Given the potential impact of success with LiquiBand® in the US market, and ActivHeal® in our domestic UK market, developing excellence in brand management is now a very focused part of our plan and we aim to strengthen our support of these brands:

- LiquiBand®, our ongoing advertising and marketing investment will be enhanced through a series of clinical studies to support our marketing claims and product positioning; and
- ActivHeal®, our rebrand has been well received and we will invest further in case studies and technical support to ensure the benefits of what the range can deliver to the NHS in terms of potential savings is better understood by all healthcare providers.

Commitment to support partners and develop innovative woundcare products

We remain committed to the development of leading edge technology and products and to working with strategic partners and major brands to commercialise them worldwide. Continuing investment in R&D will help us to deliver new product platforms such as differentiated polyurethane foams and active dressings to address the unmet clinical needs of chronic wounds. We will also be continuing to invest in clinical papers to support superiority claims for our silver alginate products versus the market leader and, in doing so, assist our multiple partners in capturing market share.

Our investment in our operational capability provides further evidence of our long term commitment to our woundcare partners.

Enhanced ability to generate growth from our Operating Room product range

With opportunities for our Operating Room product range increasing, and internal applications for our tissue adhesives potentially emerging out of R&D in the next 12-18 months, finding the right way to successfully access the Operating Room market is a high priority for the management team and remains a key challenge.

Supplement organic growth through further licensing and acquisition activity

The acquisition and integration of Corpura B.V. has successfully provided an additional technology platform from which to drive growth within the foam market, the largest and fastest growing segment of advanced woundcare. Foam has already delivered significant value to the Group in 2010 and, given our position in the market, any similar woundcare technology acquisition would provide equal growth potential. In addition, we will continue to look for synergistic businesses that allow us to leverage our enviable customer base, bring new technologies or additional brands to complement our existing product range, and distribution opportunities to help us overcome the Operating Room challenge.

Chris Meredith
Chief Executive Officer
20 April 2011

Group Finance Director's Report

Mary Tavener
Group Finance Director

Income Statement

Revenue for the Group grew 32% in 2010 to £31.9 million (2009: £24.1 million).

Advanced Woundcare sales increased 30% to £25.2 million (2009: £19.4 million), benefiting in part from a full year's contribution from the Corpura B.V. acquisition, which was completed on 30 September 2009. Adjusting for this, like-for-like growth was still 11%, well ahead of market growth rates which are estimated to have been about 4% in 2010.

The Group's key growth drivers in Advanced Woundcare performed well, with sales of our silver alginate range of products growing 19% compared with last year and sales of ActivHeal®, the Group's value range of woundcare products for the NHS market, increasing 21%. Foam is now also a very important part of the business and contributed 29% of Advanced Woundcare revenues.

Wound closure and sealants sales grew 42% to £6.7 million (2009: £4.7 million), with the main contributor being the first full year of sales of LiquiBand® in the US. US revenue benefited from sampling and customer evaluations, but has nevertheless exceeded our expectations with Quarter 4 annualised end user sales of over 250,000 units. InteguSeal® had a disappointing year with sales down by 8% but we believe that it remains an excellent product with considerable potential that requires a focused sales drive. We are considering options as to how to exploit this opportunity more effectively.

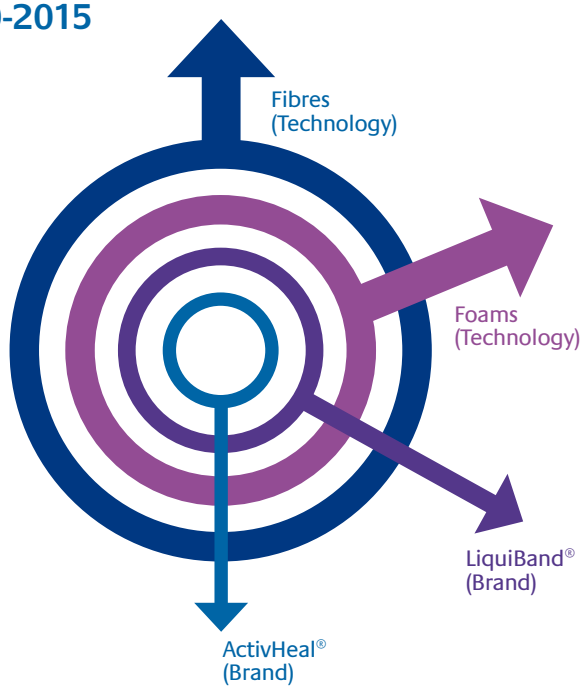
Geographically, the strength of ActivHeal® and partner business has contributed to the growth of sales in the UK, which increased 15%. Sales in Europe grew 35%, mainly due to the foam business in The Netherlands, but overall, market conditions in Europe have been difficult and we are expecting pricing challenges in 2011 as austerity measures start to bite. Sales into the US grew 55% due to the launch of LiquiBand® and the Advanced Woundcare business is also performing well.

Profit from operations (pre-exceptional items) increased by 31% to £5.3 million (2009: £4.1 million) and our operating margin (pre-exceptional items) remained at 17%. Advanced woundcare contributed £4.7 million (pre-exceptional items of £1.0 million) to this, (2009: £4.4 million, pre-exceptional items of £0.9 million), with an operating margin of 18.8%, down by 390 basis points (bpts) compared with 2009. There was a 430 bpts decline from a change of mix, primarily as a result of the previously mentioned lower margin foam business while the Winsford site move caused an estimated 60 bpts reduction in margin due to the temporary but anticipated disruption effect. Operating expenses were, however, leveraged across the entire business and reduced as a percentage of revenue, partially offsetting the declines.

Wound closure and sealants contributed £1.6 million (2009: £0.8 million) to profit from operations, with an operating margin that improved by 720 bpts to 24.2% (2009: 17%) resulting from the increased volumes through this business. 2011 will see some additional marketing spend being incurred to support the LiquiBand® opportunity in the US which may impact margin.

Across the Group, administration costs (pre-exceptional items) increased 19% to £9.3 million (2009: £7.8 million), including support and integration for the new Dutch entity, and investment in sales and marketing, in particular supporting the launch of LiquiBand® into the US. This increased spend reflects the needs of a larger Group and, overall, operating expenses as a percentage of revenue have decreased 330 bpts compared with last year. Research and Development spend was lower than normal at 4.0% of sales (2009: 6.7%), partly due to the growth of the Group but also as a result of the timing of some projects. Annual rent costs relating to our new facility in Winsford are £0.3 million higher than the old facilities.

Key drivers of growth 2010-2015



Group Finance Director's Report continued

The Group incurred £1.0 million of exceptional costs in the year, all within the Advanced Woundcare division. These costs are associated with the move into the new facility in Winsford and result from the transfer and re-validation of manufacturing equipment, additional, duplicated rent and staff dedicated to the project. There will be no further exceptional costs associated with this project.

Profit from operations (post-exceptional items) was £4.3 million, an increase of 81% compared with 2009 (2009: £2.4 million).

The Group works with existing and new partners on development projects and earns income through these projects. This is, however, becoming a less important part of the business, with the Group looking to secure more value by developing products alone. £0.2 million of other income was earned in the period (2009: £0.5 million) from these activities.

The Group achieved pre-exceptional profit before tax of £5.3 million in the period, an increase of 30% compared with 2009 (£4.1 million). Profit before tax after exceptional items was up 79% to £4.3 million (2009: £2.4 million).

The Group recognised a tax credit of £0.5 million (2009: £0.4 million), £0.3 million of which resulted from deferred tax reflecting the extent to which recoverability of tax losses can be foreseen with reasonable certainty. The Group holds a deferred tax asset in respect of tax losses on the balance sheet of £2.3 million (2009: £1.8 million) and has a further £19.1 million (2009: £24.0 million) of tax losses that have not been recognised. Corpura B.V., when acquired, had accumulated a small amount of tax losses and, with this business performing strongly, the Group anticipates that it will pay tax in The Netherlands ahead of the businesses in the UK.

Profit after tax but before exceptional items for the period was £5.8 million (2009: £4.5 million). On this basis, adjusted basic earnings per share increased by 24% to 3.83p (2009: 3.09p). Fully diluted earnings per share before exceptional items were 3.77p (2009: 2.87p).

The Group profit after tax and exceptional items was £4.8 million (2009: £2.8 million) resulting in a basic earnings per share of 3.17p (2009: 1.93p) and fully diluted earnings per share of 3.12p (2009: 1.79p).

The Board is proposing a maiden final dividend of 0.38p per share (2009: nil) which will be paid on 10 June 2011 to shareholders on the register at close of business on 13 May 2011.

Cash flow and balance sheet

The Group had a cash inflow from operating activities, before exceptional items, of £8.1 million (2009: £3.7 million), and £7.1 million (2009: £2.1 million), after exceptional items of £1.0 million (2009: £1.7 million), reflecting a very strong second half year performance. The cash conversion ratio* was 79% for the year (2009: negative due to Winsford capital expenditure, now completed).

Working capital increased in the period by £0.5 million but decreased as a percentage of sales to 14.9% (2009: 17.6%). As expected, inventory decreased by £0.7 million to £2.5 million (2009: £3.2 million) as the Winsford move completed. Trade and other receivables reduced by £0.9 million to £6.0 million (2009: £6.9 million) with debtor days reducing to 52 (2009: 54). Trade and other payables decreased by £2.1 million. The deferred payment for Corpura B.V. of £1.3 million was included in other payables in 2009.

During 2010, the Group invested £3.6 million in capital equipment and paid the remaining £1.3 million of consideration for the Corpura B.V. business. £2.9 million (2009: £3.0 million) of goodwill has been recognised on the balance sheet following the acquisition of Corpura B.V. in 2009. There has been no impairment in value to goodwill upon review as at December 31 2010.

In August 2009 the Group entered into a three year Revolving Credit Facility with Lloyds TSB Bank for £5.0 million, including a £1.0 million overdraft facility at market rate. As a consequence of this, the Group's going concern position has been strengthened as more fully described on page 34 of the Corporate Governance Report. The Group drew down £1.0 million of the revolving credit facility during 2010 due to the timing of investment in the new site, but it was not being used at the end of the year.

The Group had net funds of £3.9 million as at 31 December 2010. The strong balance sheet provides options to support future growth of the business.

Mary Tavener
Group Finance Director
20 April 2011

*Cash conversion ratio is defined as cash generated from operating activities before exceptional items including spend on property, plant and equipment, software and capitalised research and development but excluding spend on acquisitions as a ratio of profit from operations before exceptional items.

We continue to improve our methods of working and are embracing the principles of lean manufacturing

KPIs	Target	Result	
Revenue growth (like-for-like)	**10% growth year on year**	**18%**	(2009: 19%)
Operating margin (pre-exceptional)	**20% by 2012**	**17%**	(2009: 17%)
Earnings per share (fully diluted, pre-exceptional)	**20% growth per annum**	**31%**	(2009: 33%)
Percentage of sales from products launched in the last five years	**30%**	**20%***	(2009: 30%)
Customer Service	**OTIF (on time, in full) of 90%**	**86%**	(2009: 93%)

*Launches of new products reduced to avoid additional risk with site move.

Directors

1. Dr. Don W Evans
BChemEng, MASc, PhD
Non-Executive Chairman

After completing a degree in Chemical Engineering at the University of Queensland and a PhD in Biomedical Engineering at the University of Toronto, Dr. Evans joined Johnson & Johnson UK where he worked for 19 years in Research & Development and Manufacturing. He was subsequently appointed as Vice-President of European Operations for Johnson & Johnson Professional. Dr. Evans joined AMS in 1997 as Operations Director and was appointed Managing Director of Advanced Woundcare in January 1999. He became Group Chief Executive in January 2000 and was appointed Non-Executive Chairman of the Group in January 2011.

2. Chris Meredith
BSc (Hons)
Chief Executive Officer

Mr. Meredith joined AMS as Group Commercial Director in July 2005 following a successful 18 year career in international healthcare sales, marketing and business development. His experience prior to joining AMS covered business to business contract manufacturing, product development and clinical research, as well as branded product sales, all within the medical device, pharmaceutical or consumer healthcare markets. He was appointed Managing Director of Advanced Woundcare in February 2008 and in January 2010, he became Chief Operating Officer for the Group. Mr. Meredith has previously held senior positions at Smiths Industries, Cardinal Health, Banner Pharmacaps, and Aster Cephac. He was appointed Group Chief Executive Officer in January 2011.

3. Mary G Tavener
ACMA, MCT, BA (Hons) Chem (Oxon)
Group Finance Director

Ms. Tavener joined AMS as Finance Director in 1999. Prior to this, she was the Group Financial Controller at BTP plc during a period of considerable corporate activity and was involved in the acquisition and disposal of several businesses that repositioned BTP plc as a fine chemical company. Her experience has been gained in manufacturing and she has held financial positions with Cadburys Ltd and Parker Hannifin, a US Engineering Corporation. Prior to BTP plc, she was the Finance Director of Churchill Tableware Ltd.

4. Penelope A Freer
Senior Independent Non-Executive Director

Ms. Freer was appointed as Senior Independent Non-Executive Director of AMS on 1 March 2010. She is currently a Non-Executive Director of Empresaria Group plc and Senior Independent Director of Sinclair Pharma plc. She is a director of London Bridge Capital an FSA authorised advisory business. With 25 years' experience in investment banking she was formerly Head of Equities for Robert W Baird in London and prior to this held senior positions at Credit Lyonnais and NatWest Markets.

5. Stephen G Bellamy BCom & CA (NZ)
Non-Executive Director

Mr. Bellamy was appointed as Non-Executive Director of AMS on 20 February 2007. He is currently CEO and a founding partner of Accretion Capital LLP (provider of strategic capital to European emerging technology companies), Chairman of The First Close Technology Fund (which invests in early stage UK technology companies) and Non-Executive Director of Becrypt Ltd (data security and protection technology). Formerly an Executive Director of Sherwood International plc and Brierley Investments' London operations, he has also held a number of other non-executive directorships and advisory roles. He is a New Zealand qualified chartered accountant.

Management Team

1. Jeffrey Willis BSc (Hons), EMSMOT
Vice President Strategic Marketing

Jeff joined AMS in October 2005 as Vice President Business Development, Americas, where he managed the US base of business. Jeff graduated with a degree in Biomedical Engineering from the University of Florida in 1996 and completed a Masters programme in Management of Technology at Georgia Institute of Technology in 2001. He spent 10 years with Kimberly-Clark Health Care in R&D, Product Development, and New Business Development, and was a key member of the medical device M&A strategy team in Atlanta. In 2004, Jeff joined Abbott Laboratories in Columbus, Ohio as Manager of Licensing and Business Development supporting the medical nutritional and consumer products division.

In October 2009, Jeff and his family relocated to the UK when he assumed the role of Vice President of Strategic Marketing.

2. Richard Smith, ACA
Group Financial Controller

Richard joined AMS in January 2009 having qualified as a chartered accountant in 1996.

After periods in banking and private practice, Richard joined Astra Zeneca in 2000 where he worked in a number of finance roles culminating in the position of Finance Director, M&A and Strategic Planning as part of a deal team covering commercial, manufacturing, R&D and legal.

3. Richard Stenton
Vice President of Group Operations

Richard was Managing Director of MedLogic Global Ltd. (now Advanced Medical Solutions Plymouth Limited) when it was acquired by AMS in May 2002. Richard was subsequently appointed as General Manager where he had responsibility for R&D and Operations for the Wound Closure and Sealants business. Richard was appointed Vice President of Group Operations in July 2010.

Richard spent 14 years in engineering and manufacturing with CR Bard Ltd, three years as a Project Director installing medical device manufacturing processes in Europe, South Africa and the Far East before joining HG Wallace – Smiths Industries Medical Systems in 1989 as Manufacturing Manager covering six medical device manufacturing sites in the UK. He joined MedLogic Global Ltd. in 1997 and was responsible for setting up and managing the UK operation for its tissue adhesives business.

4. Steve Platt
General Manager, Winsford

Steve was appointed as General Manager, Winsford in June 2010. Steve brings 16 years of experience from major multi-national manufacturing companies. Prior to AMS he held senior positions at Toyota Manufacturing (UK), JCB Excavators, RWD Technologies and, most recently, Nilfisk Advance A/S where he was General Manager for green field operations in Eastern Europe and also had responsibility for European restructuring projects including Group M&A support. Steve has a track record for maximising business performance through the implementation of lean management techniques.

5. Ian Vickery BA (Hons), MCIPD
Group HR Manager

Ian was appointed Group HR Manager in April 2009. After graduating in Geography from Leeds University, Ian completed a Postgraduate Diploma in Personnel Management in 1989, and a Diploma in Safety Management in 1995. An HR specialist with 20 years' experience within automotive, engineering, manufacturing and pharmaceuticals, Ian has operated at a senior level within the UK and Europe to support businesses and their management teams in delivering their strategic goals and objectives.

6. Clare Holden BSc (Hons)
Vice President of Group Research and Development

Clare was appointed in July 2010. She has over 20 years of process and new product development experience with global organisations such as Smith & Nephew where her last position was Vice President of New Product Development for their Hull based Wound Management Division. Most recently, Clare was Director of Projects at Siemens' Automation & Drives Division in Manchester.

7. Pieter van Hoof, MEng
General Manager, Etten Leur

Pieter joined Advanced Medical Solutions B.V. in November 2009. Having completed a Masters degree in Engineering in Chemistry and Biochemistry at the Katholieke Universiteit Leuven (Belgium), Pieter joined Janssen Pharmaceutica working as a production supervisor in the manufacturing unit for sterile injectable products before joining the DuPont Engineering Polymers business in September 1999. At DuPont Engineering Polymers Pieter worked in a number of business process improvement roles in Supply Chain certifying as a 6 Sigma Master Black Belt before moving into Sales & Marketing gathering experience in account management and business development. Before joining Advanced Medical Solutions B.V. Pieter held the position of European Customer Services Manager for DuPont Engineering Polymers.

Corporate Governance Standing Committees

Audit Committee
S.G. Bellamy (Chairman)
P.A. Freer since 1 March 2010
D.W. Evans since 1 January 2011
S. Harris until 2 June 2010
G. Vernon until 31 December 2010

Remuneration Committee
P.A. Freer since 1 March 2010 (Chairman) since 2 June 2010
S.G. Bellamy
D.W. Evans since 1 January 2011
S. Harris (Chairman) until 2 June 2010
G. Vernon until 31 December 2010

Nominations Committee
D.W. Evans (Chairman) since 1 January 2011
P.A. Freer since 1 March 2010
S.G. Bellamy
C. Meredith since 1 January 2011
S. Harris until 2 June 2010
G. Vernon (Chairman) until 31 December 2010

Company Secretary
M.G. Tavener

Registered Office
Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT

Registered Number
2867684

Report of the Directors

for the year ended 31 December 2010

The directors present their report and the audited financial statements for the year ended 31 December 2010.

Principal activities, trading review and future developments

The Group is primarily involved in the design, development, manufacture and distribution of novel high performance polymers, both natural and synthetic, for use in advanced woundcare dressings and the design and distribution of medical adhesives for closing and sealing tissue. The Group distributes its products to the global medical device market by selling to healthcare companies, distributors and directly to the NHS in the UK.

In addition to the risk factors discussed below, further information about the business, its strategy, products and markets and its financial risks is contained in the Business Review on pages 10 to 19.

Principal risks and uncertainties

Advanced Medical Solutions Group plc is a business that depends on revenues through its sales to business partners and distributors and its direct sales to the NHS, a successful pipeline of new products through its research and development programme to build future revenues and a manufacturing capability to produce the products it sells.

Risk associated with global economic conditions

The Group has a widespread geographical market sector and customer base which minimises the impact of any single event. With an ageing population increasingly suffering health problems such as obesity and diabetes, the incidence of chronic wounds is increasing and the demographics are beneficial for the Group. That said, the general economic climate is one where a number of governments particularly in Europe are looking to reduce spend on public services. Whilst healthcare may not be the first target of such spending cuts, it is unlikely to be unscathed by the austerity measures being undertaken.

Risk associated with revenue streams

The Group's revenues are mainly from the sale of its products. The Group enters contractual relationships with its business partners wherever possible, however, there can be no guarantee that sales will be maintained or increased in future years. There has been consolidation in the healthcare sector in recent years which is ongoing. This presents both opportunities and risks. Consolidation could result in the loss of a partner which could have a material effect on the results of the Company.

The Group maintains close partnerships with a number of companies so that not more than 20% of its revenues are from any one partner. However, the loss of a key partner would impact the business significantly in the short-term.

There are also risks from pricing pressure and from competition from other products particularly when the economic climate is difficult. The Group seeks to provide differentiated products that are patented wherever possible to reduce the effects of competition.

The Group is reliant on its business partners and distributors for success in markets outside the UK. The Group supports its partners and distributors with marketing assistance and with clinical trial programs where possible to drive awareness of its products. There is a risk that if partners and distributors do not support the products that opportunities may be lost, resulting in revenue shortfall.

Risk associated with new products

The Group continues to invest in research and development to develop its next generation of products. By its nature, not all research leads to successful new products, although the Group believes that by monitoring progress against key milestones, it avoids excessive expenditure on projects that will not deliver a viable product. There is also the risk that the Group will not identify a new technology or opportunity before its competition and may, therefore miss an opportunity to gain competitive advantage.

Risk associated with manufacture

The Group identified a need to increase its capacity and as a result decided to move its two existing sites in Winsford into one new premises on the same industrial estate. This move has now been completed and the risk that it would cause supply problems for customers or significantly overrun or be over budget has been successfully managed. There remains, however, the risk that the project will not deliver the benefits expected.

The Group is also exposed to the risk that margins would be eroded if price increases occur in raw materials, and the price increases could not be passed on to its business partners or customers. Wherever possible the Group tries to maintain more than one source of supply of key materials. Where materials can only be sourced from a sole supplier or are linked to commodity prices the Group includes pricing mechanism clauses in its contracts wherever possible. If a sole supplier stopped supplying a key material at short notice, it could result in an interruption of supply of goods until a suitable solution could be found.

As a manufacturer, the Group is exposed to potential product liability claims but has in place insurance cover to manage this potential risk. The Group's products are subject to medical device regulatory approval and certification before launch. The Groups manufacturing facilities are in compliance with ISO 13485, the latest international quality assurance standard for medical devices and receives regular inspection by regulatory authorities.

Risk associated with the information systems

As the Group continues to grow, there is a risk that without addressing resource issues that the Group does not address opportunities appropriately or it outgrows its information systems.

The Group is reviewing and upgrading its information systems and recognises that there are risks in implementing new systems which need to be managed but that to not upgrade systems would present a greater risk. As a medical device business any implementation has to meet stringent quality requirements and be a fully validated system.

Whilst this may result in any change in business information systems taking longer or costing more to implement, it does mean that the risk of unsuccessful implementation is significantly reduced.

Risk associated with the organisation

The Group recognises that the calibre and strength in depth of the organisation and its ability to develop its leadership talent are key to the future of the business.

Accordingly, the Group maintains active recruitment, development and training programmes, attractive incentive schemes and pro-active succession planning.

Report of the Directors continued

for the year ended 31 December 2010

Financial risk

The Group is subject to various financial risks including the following:

- Currency
  The Group's main currency exposure is to the US dollar with around 28% of the Group's sales denominated in US dollars. The Group's policy is to hedge significant transaction exposure (50% – 80% of the sales for 12 months) to the dollar by using forward contracts and options. In 2010, if the average dollar had depreciated against sterling by 10% more, the average rate would have had a £0.8 million (2009: £0.5 million) impact on revenue and the gross margin would have been reduced by 1.5 percentage point.
- Credit
  The Group assesses the risk of contracting with each customer and sets credit limits which are carefully monitored. If a significant risk is identified credit facilities are withdrawn and transactions are carried out on a cash basis. However, if a key partner was significantly affected by a difficult trading environment, this would have a short term impact on the Group.
- Price
  Supplier costs, discounts and rebates are monitored and checked in line with budgets and documentary evidence. Wherever possible contracts are in place with key suppliers which define prices and terms. The Group estimates that if material prices had increased by a further 5% in 2010 and the Group was unable to pass the increases on there would have been a negative impact of £0.4 million (2009: £0.2 million) to the cost and the gross margin would have been reduced by 1 percentage point.

Going concern

After making enquiries on the basis of current forecasts the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the accounts.

Dividends

The Group made a profit for the year to 31 December 2010 of £4.8 million (2009: £2.8 million). The directors are recommending a payment of a final dividend of 0.38p. The final dividend will be subject to shareholders' approval to be paid on 10 June 2011 to shareholders on the register on 13 May 2011.

Research and development

The Group has expensed to the income statement in the year ended 31 December 2010 £1,289,000 of expenditure (2009: £1,613,000) on research and development. In accordance with International Accounting Standards a further £167,000 (2009: £301,000) has been capitalised. Further details on the Group's research and development are included in the Business Review on pages 10 to 19.

Creditors' payment policy

The Group's policy, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms, and to abide by the agreed terms of payment provided that the supplier performs its obligations. Where terms have not been specifically agreed, it is the Group's practice to settle invoices in line with local and industry requirements. The Group's trade creditors at 31 December 2010 represented approximately 71 days of purchases (2009: 72 days).

Charitable and political contributions

The Group did not make any charitable or political contributions during the year (2009: £nil).

Share capital and issue of ordinary shares

The authorised and issued share capital of the Company is set out in note 31 to the accounts on page 61.

Substantial shareholdings

The Company's major shareholders at 8 March 2011 were:

	No of Ordinary Shares	Per cent
Axa Framlington Investment Management	15,116,427	9.77
Legal & General Investment Management	10,213,303	6.60
Hargreave Hale, Stockbrokers	7,462,425	4.82
Standard Life Investments	7,000,000	4.52
Invesco Perpetual	6,297,582	4.07
Schroder Investment Management	6,076,500	3.93
Old Mutual Asset Managers	5,224,154	3.37
Cavendish Asset Management	4,796,225	3.10

Employees

The Group's policy is to consult and discuss with employees, through meetings, both formal and informal, those matters likely to affect employees' interests. The Employees' Consultative Committee, which comprises of representatives of employees and management, meets regularly to discuss business issues and areas of concern.

Employees are incentivised directly through the Company's bonus scheme, share option schemes, deferred share bonus schemes, performance reviews, and training and development opportunities. The Group's aim is to recruit and retain sufficient skilled and motivated employees to meet the needs of the business. The required skills are defined and employees are encouraged to acquire additional skills for which they are remunerated. Each line manager is responsible for implementing this approach.

It is the Group's policy to give full and fair consideration to all applications for employment from disabled persons having regard to their particular aptitudes and abilities and to encourage the training and career development of all personnel employed by the Group, including disabled persons. Should an employee become disabled, the Group would, where practicable, seek to continue the employment and arrange appropriate training.

Employees' share schemes

All employees except for participants in the Long Term Incentive Plan (LTIP) are eligible after a period of service to be granted options over shares in the Company under the Company's Executive Share Option Schemes. Options granted under these schemes are not offered at a discount. Further details are included in the Remuneration Report on pages 29 to 31.

The Company also operates a Deferred Share Bonus Scheme (DSB) in which all employees are invited to participate. The DSB encourages employee share ownership and aligns the employees' interests with those of the shareholders. The details of the DSB are provided in the Remuneration Report on page 29 to 31.

The Company no longer satisfies the requirements for granting tax efficient options under its EMI scheme. Options already granted under this scheme will be allowed to vest in accordance with the rules of the scheme.

The Group received approval last year to adopt a Company Share Option Plan (CSOP) which received HMRC approval. Under the CSOP, employees are allowed to receive up to £30,000 of options in a tax efficient manner.

Health and safety

The Group is committed to high standards in health, safety and environmental performance. It is the Group's policy to abide by all laws, directives and regulations pertinent to its field of operations and to act in a manner so as to minimise the effects of its operations on the environment. The Company provides safe places and systems of work, safe plant and machinery, safe handling of materials and ensures that appropriate information, instruction and training is given. Employees are encouraged to identify 'near misses' to ensure preventative actions are taken to avoid any unsafe work practices. Regular audits are undertaken to evaluate compliance with Group policy.

Environment

Where possible, the Group aims to reduce its impact on the environment. The new Group facility at Winsford has been built with a high level of thermal insulation to reduce the Company's carbon footprint. It is also one of the first in the country to utilise a solar wall; a renewable energy source that captures the sun's warmth and supplements the building's heating system. Lighting is controlled by movement sensors to avoid wastage and the heating system is fully programmable.

Directors and their interests

The directors of the Company at 31 December 2010 and their interests, all of which are beneficially held, in the share capital of the Company were:

	Ordinary shares of 5p each 31 December 2010			Ordinary shares of 5p each 31 December 2009		
	Shares	**Options**	**LTIP**	Shares	Options	LTIP
Geoffrey Vernon	**1,000,000**	**–**	**–**	1,000,000	–	–
Don Evans	**3,162,587**	**–**	**293,843**	869,591	616,666	3,295,016
Mary Tavener	**2,055,511**	**–**	**193,408**	246,130	300,000	2,407,979
Steve Harris	**–**	**–**	**–**	202,127	–	–
Chris Meredith	**1,125,735**	**–**	**589,234**	111,850	–	1,797,234
Steve Bellamy	**100,000**	**–**	**–**	100,000	–	–

On 22 March 2010, Don Evans, Mary Tavener and Chris Meredith, following the achievement of certain performance criteria and the release of preliminary results, exercised options and LTIPS. Shares were sold at 35p to meet the costs of exercise and taxes payable.

Further details of the directors' remuneration and benefits are included in the Remuneration Report on pages 29 to 31.

Reappointment

At the forthcoming Annual General Meeting, Don Evans who was elected Non-Executive Chairman on 1 January 2011 retires and formally offers himself for reappointment. As disclosed in the Corporate Governance statement on pages 32 to 34, as Don was not independent upon appointment, he will be proposed for re-election annually. Steve Bellamy will retire by rotation and, being eligible, will be proposed for reappointment. Details of the current directors of the Company are as shown on pages 20 to 21.

Report of the Directors continued

for the year ended 31 December 2010

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Auditor

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at 11.00 am, on Wednesday 8 June 2011 at Macdonald Portal Hotel, Cobblers Cross Lane, Tarporley, Cheshire CW6 0DJ. Details of the notice of the Annual General Meeting are given on pages 73 and 74. The Annual General Meeting provides an opportunity for private shareholders to question the directors and to meet informally with the executive management after the meeting.

On behalf of the Board

Mary Tavener
Company Secretary
20 April 2011

Remuneration Report

As an AIM quoted company, Advanced Medical Solutions Group plc is not required to comply with the Directors' Remuneration Report Regulations 2002. The following disclosures are made voluntarily.

The members of the Remuneration Committee are all Non-Executive Directors of the Group and have no personal financial interest arising from cross-directorships and no day-to-day involvement in running the business. The Committee met six times during the year.

The Board has accepted the Remuneration Committee's recommendations in full.

The Remuneration Committee, on behalf of the Board and in consultation with the Chief Executive, determines the Group's policy on executive remuneration, employment conditions and the individual remuneration packages of Executive Directors and management earning in excess of £75,000 per annum and administers the Share Option Schemes. At the start of 2011, the Remuneration Committee reviewed its Terms of Reference and it was agreed by the Board that the remuneration of all employees that reported to the Executive Directors together with any other managers with a remuneration package of £100,000 or greater would be determined by the Remuneration Committee.

Remuneration policy

The remuneration policy is based on the need to offer competitive packages to attract and retain senior executives of the highest calibre. Regular reviews of the policy are carried out, supported by independent advice, to ensure that the range and level of emoluments and incentive schemes continue to match current market practice.

Salary

Salaries are benchmarked against market medians, taking performance into account.

Annual performance bonus

The service agreements provide that each Executive Director shall be entitled to receive an annual bonus to be determined by the Remuneration Committee based on the Group's financial and operating performance. Each participant may receive up to 60% of his or her salary dependent upon performance measured against targets resulting from the completion of the Group's business plan, the performance of the Group and other personal targets. The first 20% of a bonus may be taken in cash. 50% of any additional bonus is deferred as part of the deferred bonus scheme. Shares are acquired and placed in trust.

Share options

All employees, except for participants in the Long Term Incentive Plan (LTIP), can be granted options over shares in the Company under the Company's Executive Share Option Schemes, under which both approved and unapproved options may be granted. Options granted under these schemes are not offered at a discount.

The exercising of options under these schemes is conditional on certain performance conditions which are pre-determined by the Remuneration Committee and which accord with the Joint Statement from the Investment Committees of the Association of British Insurers and the National Association of Pension Funds. Options are exercisable normally only after the third anniversary of the date of grant (or such later time as may be determined at the time of grant) and cannot in any event be exercised later than the tenth anniversary of the date of grant. Full details of these are included in note 34 on page 62.

Options issued under the Scheme will be allowed to vest in accordance with the scheme rules. The Company received approval for a Company Share Option Scheme (CSOP) on 2 June 2010. This was adopted after HMRC approval on 13 August 2010. This Scheme will allow relevant employees to benefit in the growth of the value of AMS shares subject to a £30,000 limit by reference to the market value of these shares on the grant date.

Long-term Incentives

Following feedback from shareholders, proposals for the adoption of a LTIP were introduced as the most appropriate vehicle for long-term incentivisation for Executive Directors and other senior employees. The Company's LTIP was approved by shareholders on 24 May 2005. Those individuals who are entitled to awards under the LTIP are no longer eligible to receive options under the Company's Executive Share Option Schemes. Options issued to those employed prior to the introduction of the LTIP were still exercisable subject to the relevant performance criteria being met. The objectives of the LTIP are to align the interests of executives with those of shareholders by making a part of remuneration dependent on the success of management in delivering superior returns to shareholders. 50% of the award will be determined based on the performance of the Company compared with the AIM Healthcare Share Index and 50% of the award will be determined by the growth in the average earnings per share per year of the Company over the last three year period prior to vesting.

Of the 50% of the award that is determined by reference to the AIM Healthcare Share Index, no shares will be awarded if the Company is ranked below the 50% level. If the Company is ranked in the upper quartile of the index ie. at 75% or above, the full 50% of the award shall become vested. If the Company is ranked between 50% and 75%, the provision of an award which shall become vested shall be determined on a straight-line basis between 0% and 50%.

The other 50% of the award will be vested if the Company achieves an average of 30% or more earnings per share growth per year. No award will be vested if the Company achieves an average of less than 10% earnings per share growth in any one year.

The proportion of the award that shall become vested if the Company achieves an average earnings per share growth per year between 10% and 30% shall be on a straight-line basis between 0% and 50% per cent.

The Remuneration Committee review annually the performance criteria for the vesting of LTIPs.

As with share options granted under the Company's Executive Share Option Scheme, awards will not vest if the Company is not profitable at the end of the performance period.

Deferred Share Bonus Plan

The Company has also set up a Deferred Share Bonus Plan (the 'DSB') which is available to all employees. The DSB allows for the payment of any bonus to be made in the form of shares. It also allows for the provision of additional matching shares if the bonus shares are held for a set period. The DSB encourages employees to acquire shares in the Company and retain those shares to receive additional free shares from the Company. It acts as a valuable retention tool and aligns employees' interests with those of shareholders. The first year that the DSB operated was in 2007. The Company intends to continue to operate the scheme in 2011.

Remuneration Report continued

Pension
Executive Directors are entitled to become a member of the Group Pension and Life Assurance Scheme, which was set up with effect from 1 February 1999. This covers all employees and requires a contribution of 3% by the employee and 6% by the Group. Executive Directors may contribute up to 10% and the Group contributes 10%. The Pension Plan is a money purchase scheme.

Service agreements
The service agreements for Mary Tavener and Chris Meredith are terminable by either party giving not less than twelve months notice in writing.

Private healthcare
Executive Directors are entitled to private healthcare and permanent health insurance.

Car
The Company no longer considers it to be market practice to offer Company vehicles to Executive Directors.

Non-Executive Directors
The fees of the Non-Executive Directors are determined by the Executive Directors. Non-Executive Directors receive travel expenses but do not participate in any incentive arrangements. The Non-Executive Directors have entered into terms of appointment. The Non-Executive Directors' appointments are terminable by either party upon six months notice in writing. Upon becoming Non-Executive Chairman, a new service agreement was agreed with Don Evans. His appointment as Non-Executive Chairman was agreed for an initial term of one year. Thereafter, his appointment is terminable by either party upon six months notice in writing.

As a result of his previous position as Chief Executive Officer, Don Evans has LTIPs issued with a vesting date of 23 April 2012. The Remuneration Committee have recommended that these LTIPs will be allowed to vest in the normal way, subject to the usual performance conditions. As Non-Executive Chairman, Don Evans will no longer be eligible to receive future LTIPs.

Don Evans also has bonus earned in earlier years deferred as part of the Deferred Bonus Scheme. The Remuneration Committee has recommended that Don Evans be allowed to leave his shares in the scheme for the normal retention time and not be required to withdraw them early from the scheme.

Directors' emoluments

	Salary & fees £'000	Annual bonus £'000	Benefits £'000	Pension £'000	Paid to third parties £'000	**Total year ended 2010 £'000**	Total year ended 2009 £'000
Executive							
Don Evans	198	–	28	20	–	**246**	307
Mary Tavener	132	–	24	13	–	**169**	196
Chris Meredith	143	–	34	14	–	**191**	195
Non-Executive							
Geoffrey Vernon	–	–	–	–	75	**75**	49
Steve Harris	–	–	–	–	15	**15**	30
Steve Bellamy	–	–	–	–	31	**31**	31
Penny Freer	–	–	–	–	28	**28**	–
	473	–	86	47	149	**755**	808

The table above summarises the payments made to the directors for the 2010 financial year.

The annual bonuses paid to the Executive Directors in 2010 are in respect of the prior financial year. No bonuses were paid in 2010 for the 2009 financial year. Bonuses to the directors are not determined until the financial results have been audited and approved by the Board. The benefits paid to the directors include payments made by the Company to settle liabilities incurred by the directors. The directors have no liabilities with the Company at the end of the year.

The opening share price for the year was 33.5p and the closing price on the last trading day of 2010, 31 December, was 73p. The range during the year was 74.75p (high) to 32p (low). (Source: daily official list of the London Stock Exchange).

Directors' interests in share options

Unapproved Executive Share Option Scheme

	Number of Ordinary shares under option				Number of Ordinary shares under option	
	As at 31 December 2009	Exercised in the year	**As at 31 December 2010**	Exercise Price	Date of (p) Grant	
Don Evans	616,666	616,666	–	9.00	15 July 2004	
Mary Tavener	300,000	300,000	–	9.00	15 July 2004	

These options are exercisable on or after the third anniversary of the date of the grant and will lapse on the tenth anniversary of the date of the grant. These options were exercised in 2010.

Directors interests in the Long-Term Incentive Plan (LTIP)

The maximum number of shares to be allocated to the directors under the LTIP, in each case for an aggregate consideration of £1, are as follows:

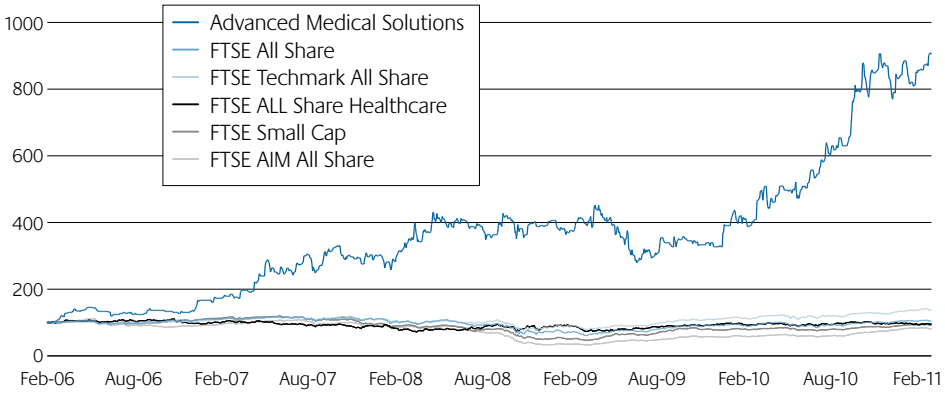
	As at 31 December 2009	Exercised in the year	**As at 31 December 2010**	Market price at date of grant (p)	First vesting date
Don Evans	1,865,173	1,865,173	–	8.75	12 October 2008
	1,136,000	1,136,000	–	16.75	12 March 2010
	293,843	–	**293,843**	33.30	23 April 2012
Mary Tavener	1,348,571	1,348,571	–	8.75	12 October 2008
	866,000	866,000	–	16.75	12 March 2010
	193,408	–	**193,408**	33.30	23 April 2012
Chris Meredith	500,000	500,000	–	8.75	12 October 2008
	708,000	708,000	–	16.75	12 March 2010
	589,234	–	**589,234**	33.30	23 April 2012

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 29. The figures shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved. New Bridge Consulting LLP have advised on the Total Shareholder Return (TSR) performance of the Company's shares for the LTIPs granted in 2005 and have advised that AMS's Total Shareholder Return (TSR) was in the top quartile of performance against the comparator Group and that consequently 100% of the award has vested. PKF (UK) LLP have confirmed that AMS's TSR performance for the LTIPs granted in 2007 was in the top quartile of performance against the comparator group and that consequently 100% of the award has vested.

Awards made have no performance retesting facility.

Five-Year relative share price performance

For the five year period ending 28 February 2011, Advanced Medical Solutions Group plc's share price has outperformed the FTSE All Share by 759%, the FTSE techMARK by 553%, the FTSE Healthcare Index by 844%, the FTSE Small Cap Index by 881% and the FTSE AIM All Share Index by 10%.



Mary Tavener
Company Secretary
20 April 2011

Corporate Governance

The Board is committed to the principles of corporate governance and, although as an AIM quoted Company is not bound by the Combined Code, the directors have applied the Combined Code in a manner which it considers appropriate for the size of the Group. The directors have highlighted below where the Group has not applied the UK Combined Code.

The Board of Directors

The Board retains full and effective control of the Group and has a schedule of matters specifically reserved for its decision. The Board meets on a formal basis regularly, and met formally 18 times in 2010. All of the directors attended all of the meetings that they were eligible to attend. Prior to each Board Meeting, directors are sent an agenda including reports from the Executive Directors, monthly management accounts and forecasts, and reports on Health and Safety. Additionally, the Board is responsible for formulating the Group's corporate strategy, approval of budgets, monitoring financial performance, approval and review of major capital expenditure, corporate governance and risk management. Operational control is delegated to the Executive Directors and the Senior Management Team (SMT). The SMT meets monthly. All directors have access to the advice and services of the Company Secretary and can take independent professional advice, if necessary, at the Group's expense. The Non-Executive Directors are able to contact the Executive Directors at any time for further information.

In 2010 the Board consisted of three Executive Directors and three Non-Executive Directors. The Chairman is considered by the Company to be one of the Non-Executive Directors and there is a clear division of responsibility between the Chairman and the Chief Executive. Two of the Non-Executive Directors are considered to be independent and independent of the executive management. The Chairman during the year, Geoffrey Vernon, having served longer than ten years on the Board, was no longer considered independent. He retired from the Board on 31 December 2010 and was replaced by Don Evans who became Non-Executive Chairman having been the Chief Executive Officer of the Group. Don Evans is not considered to be an independent Non-Executive. In 2010 the Board had at least two independent Non-Executive Directors which for smaller companies is in compliance with the Code.

The Board is aware that appointing the Chief Executive Officer to the role of Chairman does not comply with the independence criteria specified in A.3.1. of the Code. However, having set out the criteria required from the role of Chairman as the Group moves through to its next stage of growth, the Board believed that the decision was in the best interests of its shareholders. Don Evans' considerable experience in the sector and with the Group significantly outweighed any disadvantages that his lack of independence might bring when the independence of the Non-Executive Directors is taken into account. The opinions of major shareholders and advisors were sought in advance of this decision being taken. Don Evans was not involved in the Board decision surrounding his appointment.

All directors are required to stand for re-election at the first Annual General Meeting following their appointment and, as a minimum, every three years thereafter. Don Evans will be standing for re-election at the next AGM and, because he is deemed not to be independent, every year thereafter.

All of the Non-Executive Directors are able to discuss matters without the Executive Directors present.

The Board formally evaluates its performance annually. Each director completes a comprehensive questionnaire. The results are collated and discussed by the Board. The Board then acts on the findings. As a result of formal feedback from advisors, investors and analysts the Board decided to appoint a Senior Independent Director (SID) and Penny Freer was appointed to the Board as SID on 1 March 2010.

The Company arranges appropriate insurance cover in respect of legal action taken against its directors.

Board Committees

The Board has delegated specific authority to the Remuneration Committee, Nominations Committee and the Audit Committee.

The Non-Executives are the only members of the Remuneration and Audit Committees.

The Audit Committee is chaired by Steve Bellamy, a qualified Chartered Accountant and met three times in 2010. The Audit Committee has Terms of Reference which are regularly reviewed. The Committee considers the appointment, fees and independence of the auditors and discusses the scope of the audit and its findings. It is also responsible for monitoring the Group's accounting policies, reviewing the Group's assessment of business risks and internal controls to mitigate these risks as well as reviewing the annual and interim statements prior to their submission for approval by the Board. It is also responsible for reviewing the Company's Whistleblowing and Fraud policies, and reviewing the Company's need for an internal audit function. The Committee has the right of access to the external auditors without the attendance of the Executive Directors and does so regularly.

In 2011, as Don Evans was not independent upon appointment as Chairman, his membership of the Audit Committee is not in compliance with the Corporate code. As a smaller company, Advanced Medical Solutions is, however, only required to have two, independent Non-Executives on its Audit Committee.

The Audit Committee also undertakes a formal assessment of the auditor's independence which includes:

- A review of non-audit services provided to the Group and related fees.
- Discussion with the auditor of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence.
- A review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner.
- Obtaining written confirmation from the auditor that, in its professional judgement, it is independent.
- An analysis of the fees payable to the external audit firm in respect of both the audit and non-audit services during the year, which is set out in note 7 of the financial statements.

The Remuneration Committee is chaired by Penny Freer and, in consultation with the Chief Executive, determines the Group's policy on executive remuneration, employment conditions, and the individual remuneration packages of Executive Directors and senior management earning in excess of £75,000 per annum. In 2011, The Terms of Reference will require the remuneration of all senior management reporting to the Executive Directors and staff with remuneration packages of £100,000 or more to be approved by the Remuneration Committee. It also approves all new incentive schemes, the grants of options under the Group's Share Option Schemes, and the grant of shares under the Group's Long Term Incentive Plan (LTIP). The Remuneration Committee met six times in 2010. Its report is included on pages 29 to 31.

In 2011, as Don Evans was not independent upon appointment as Chairman, his membership of the Remuneration Committee is not in compliance with the Combined Code. As a smaller company, Advanced Medical Solutions is however, only required to have two independent Non-Executive Directors on its Remuneration Committee.

The Nominations Committee nominates and recommends the appointment of new directors to the Board, considers succession planning for directors and other senior management and membership of the Audit and Remuneration Committees in consultation with the Chairman of the Committees. In making recommendations, the Committee takes into account the balance of skill, knowledge and experience of the Board. The Committee is chaired by the Chairman of the Group and comprises the Non-Executive Directors and the Chief Executive Officer. The Nominations Committee met three times in 2010. In addition to the full Nominations Committee meeting once to discuss the succession plans of the Group, the non-compromised directors of the Nominations Committee met twice to discuss the Chairmanship role. In particular, the Chairman did not chair the Nominations Committee when dealing with the appointment of his successor. The Senior Independent Director chaired the Nominations Committee instead.

In 2011, Don Evans will be Chairman of the Nominations Committee. This will not be in compliance with the Combined Code.

Investor Relations

The Group maintains a regular dialogue with its shareholders, mainly in the periods following the announcement of the interim and final results, but also at other times during the year. The views of shareholders are sought through direct contact and from feedback from advisors and are communicated to the Board as a whole. The Board encourages the participation of shareholders at its annual general meeting, notice of which is sent to shareholders at least 20 working days before the meeting. The AMS website 'www.admedsol.com' is regularly updated and provides additional information on the Group, including information of the Group's products and technology.

The Company proposes separate resolutions for each separate issue and specifically relating to the reports and accounts. The Company ensures all proxy votes are counted and indicates the level of abstentions it has received after each resolution has been dealt with on a show of hands.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, taking guidance from the Audit Committee. In the context of the Group's business any such system can only reasonably be expected to manage rather than eliminate risks arising from its operations. It can therefore only provide reasonable and not absolute assurance against material loss or misstatement.

Key features of the internal control system are as follows:

- The Group has an organisational structure with clearly established responsibilities and lines of accountability. The Group promotes the values of integrity and professionalism. The member's of the Board are available to hear, in confidence, any individuals concerns about improprieties.
- The Board has a schedule of matters expressly reserved for its consideration. This schedule includes potential acquisitions, major capital projects, treasury, risk management policies, approval of budgets and health and safety.
- An ongoing risk management process has been implemented which identifies the key business risks facing the Group including both financial and operational risks. This process, the key business risks identified and the controls to mitigate the risks are reviewed by the Board at least twice a year.
- The controls in place to minimise the occurrence of the risk are documented and analysed for effectiveness. These include procedures for the approval of major expenditure or commitment of resources.
- The Board monitors the activities of the Group through the management accounts, monthly forecasts and other reports on current activities and plans. The Senior Management Team regularly monitors financial and operational performance in detail and takes any necessary corrective action.
- The Group operates a 'whistle-blowing' policy enabling any individual with a concern to approach the independent Non-Executive Directors in confidence.

The Board reviews and continues to review the effectiveness of the Group's procedure in managing risk and, therefore, believes it meets the requirements of the Combined Code.

The Audit Committee has considered the need for an internal audit resource. It is of the opinion that, given the size and nature of the Group's operations and the other controls in place, it would not be appropriate at the present time. The matter is formally reviewed at least annually. The external auditors have been engaged to review the Group's risk management process and the controls in place to mitigate the risk. This review is ongoing. Preliminary feedback has been provided to the Audit Committee on the work carried out to date.

The Group also calls on the services of external bodies to review the controls in certain areas of the Group. The quality assurance systems are reviewed by the Group's notified bodies, the British Standards Institute (BSI), TUV Product Service and Lloyd's Quality Register Assurance on a regular basis.

Corporate Governance continued

Going Concern

In carrying out their duties in respect of going concern, the directors have carried out a review of the Group's financial position and cash flow forecasts for the next 12 months. This includes a comprehensive review of revenue, expenditure and cash flows, taking into account specific business risks and the current economic environment.

With regards to the Group's financial position, it had cash and cash equivalents at the year-end of £4.1 million. The Group also has in place a revolving credit facility of £5 million inclusive of a £1 million overdraft facility which expires in July 2012 and which was unutilised at the end of the year.

While the current economic environment is uncertain, AMS operates in a market whose demographics are extremely favourable, underpinned by an increasing need for products to treat chronic and acute wounds. Consequently, strong market growth is predicted. The Group has a number of long-term contracts with customers across different geographic regions and also with substantial financial resources, ranging from government agencies through to global healthcare companies.

Having taken the above into consideration the directors have reached the conclusion that the Group is well placed to manage its business risks in the current economic environment. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board

Mary Tavener
Company Secretary
20 April 2011

Independent Auditor's Report to the members of Advanced Medical Solutions Group plc

We have audited the financial statements of Advanced Medical Solutions Group plc for the year ended 31 December 2010, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Company Balance Sheet, the related consolidated notes 1 to 36 and the related Company notes 1 to 8. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

William Smith (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
20 April 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 Before exceptional items £'000	Exceptional items (note 6) £'000	Total £'000	Year ended 31 December 2009 Before exceptional items £'000	Exceptional items (note 6) £'000	Total £'000
Revenue from continuing operations	4	**31,881**	**–**	**31,881**	24,091	–	24,091
Cost of sales		**(17,144)**	**–**	**(17,144)**	(12,482)	–	(12,482)
Gross profit		**14,737**	**–**	**14,737**	11,609	–	11,609
Distribution costs		**(307)**	**–**	**(307)**	(157)	–	(157)
Administration costs		**(9,263)**	**(1,001)**	**(10,264)**	(7,799)	(1,672)	(9,471)
Other income		**173**	**–**	**173**	488	–	488
Share of result of joint venture		**–**	**–**	**–**	(66)	–	(66)
Profit from operations	4,5	**5,340**	**(1,001)**	**4,339**	4,075	(1,672)	2,403
Finance income	11	**12**	**–**	**12**	21	–	21
Finance costs	12	**(60)**	**–**	**(60)**	(30)	–	(30)
Profit before taxation		**5,292**	**(1,001)**	**4,291**	4,066	(1,672)	2,394
Income tax	13	**542**	**–**	**542**	390	–	390
Profit for the year attributable to equity holders of the parent		**5,834**	**(1,001)**	**4,833**	4,456	(1,672)	2,784
Earnings per share							
Basic	15	**3.83p**	**(0.66)p**	**3.17p**	3.09p	(1.16)p	1.93p
Diluted	15	**3.77p**	**(0.65)p**	**3.12p**	2.87p	(1.08)p	1.79p

The above results relate to continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit for the year	**4,833**	2,784
Exchange differences on translation of foreign operations	**(257)**	(153)
Loss arising on cash flow hedges	**(76)**	(26)
Other comprehensive expense for the year	**(333)**	(179)
Total other comprehensive income for the year attributable to equity holders of the parent	**4,500**	2,605

Consolidated Statement of Financial Position

At 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Non-current assets			
Acquired intellectual property rights	16	**1,062**	1,230
Software intangibles	16	**16**	34
Development costs	16	**771**	725
Goodwill	20	**2,878**	2,978
Property, plant and equipment	17	**12,828**	10,284
Deferred tax assets	18	**2,756**	2,422
Trade and other receivables		**19**	6
		20,330	17,679
Current assets			
Inventories	21	**2,498**	3,179
Trade and other receivables	22	**6,035**	6,945
Cash and cash equivalents	23	**4,122**	1,992
		12,655	12,116
Total assets		**32,985**	29,795
Liabilities			
Current liabilities			
Trade and other payables	24	**3,798**	5,887
Other taxes payable		**424**	463
Other loans	25	**18**	18
Obligations under finance leases	25	**19**	16
		4,259	6,384
Non-current liabilities			
Trade and other payables	24	**677**	278
Other loans	26	**226**	244
Obligations under finance leases	26	**23**	39
		926	561
Total liabilities		**5,185**	6,945
Net assets		**27,800**	22,850
Equity			
Share capital	31	**7,740**	7,248
Share premium		**306**	99
Share-based payments reserve		**442**	502
Investment in own shares	32	**(37)**	(27)
Share-based payments deferred tax reserve		**397**	576
Other reserve	32	**1,531**	1,531
Translation reserve		**(85)**	248
Retained earnings		**17,506**	12,673
Equity attributable to equity holders of the parent		**27,800**	22,850

The financial statements on pages 36 to 66 were approved by the Board of Directors and authorised for issue on 20 April 2011 and were signed on its behalf by:

Chris Meredith
Chief Executive Officer
20 April 2011

Consolidated Statement of Changes in Equity

Attributable to equity holders of the Group

	Share capital £'000	Share premium £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Other reserve £'000	Translation £'000	Retained earnings £'000	Total £'000
At 1 January 2009	**7,169**	**23**	**300**	**(18)**	**571**	**1,531**	**427**	**9,889**	**19,892**
Share-based payments	–	–	202	–	5	–	–	–	207
Issue of share capital	8	–	–	–	–	–	–	–	8
Share options exercised	71	76	–	–	–		–	–	147
Shares purchased by EBT	–	–	–	(114)	–	–	–	–	(114)
Shares sold by EBT	–	–	–	105	–	–	–	–	105
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(153)	–	(153)
Movement on cash flow hedges	–	–	–	–	–	–	(26)	–	(26)
Consolidated profit for the year to 31 December 2009	–	–	–	–	–	–	–	2,784	2,784
At 31 December 2009	**7,248**	**99**	**502**	**(27)**	**576**	**1,531**	**248**	**12,673**	**22,850**
Share-based payments	–	–	282	–	–	–	–	–	282
Issue of share capital	5	–	–	–	–	–	–	–	5
Share options exercised	487	207	(342)	–	(179)	–	–	–	173
Shares purchased by EBT	–	–	–	(191)	–	–	–	–	(191)
Shares sold by EBT	–	–	–	181	–	–	–	–	181
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(257)	–	(257)
Movement on cash flow hedges	–	–	–	–	–	–	(76)	–	(76)
Consolidated profit for the year to 31 December 2010	–	–	–	–	–	–	–	4,833	4,833
At 31 December 2010	**7,740**	**306**	**442**	**(37)**	**397**	**1,531**	**(85)**	**17,506**	**27,800**

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Cash flows from operating activities			
Profit from operations		**4,339**	2,403
Adjustments for:			
Share of results of joint venture		**–**	66
Depreciation		**1,077**	678
Amortisation – intellectual property rights		**168**	168
– development costs		**121**	96
– software intangibles		**23**	26
Decrease/(increase) in inventories		**676**	(826)
Decrease/(increase) in trade and other receivables		**880**	(1,583)
(Decrease)/increase in trade and other payables		**(502)**	826
Share-based payments expense		**282**	202
Net cash inflow from operating activities		**7,064**	2,056
Cash flows from investing activities			
Purchase of software		**(5)**	(20)
Capitalised research and development		**(167)**	(301)
Purchases of property, plant and equipment		**(3,685)**	(6,735)
Movements in investments in money market deposits		**–**	5,730
Interest received		**12**	74
Acquisition of subsidiary	33	**(1,255)**	(69)
Movement in loans and receivables		**–**	(711)
Net cash used in investing activities		**(5,100)**	(2,032)
Cash flows from financing activities			
Finance lease repayments and interest		**(19)**	(17)
Repayment of secured loan		**(18)**	(17)
Issue of equity shares		**359**	155
Shares purchased by EBT		**(191)**	(114)
Shares sold by EBT		**181**	105
Interest paid		**(54)**	(30)
Net cash from financing activities		**258**	82
Net increase in cash and cash equivalents		**2,222**	106
Cash and cash equivalents at the beginning of the year		**1,992**	1,882
Effect of foreign exchange rate changes		**(92)**	4
Cash and cash equivalents at the end of the year		**4,122**	1,992

Notes Forming Part of the Consolidated Financial Statements

1. Reporting entity

Advanced Medical Solutions Group plc ('the Company') is a public limited company incorporated and domiciled in England and Wales (registration number 2867684). The Company's registered address is Premier Park, 33 Road One, Winsford Industrial Estate, Cheshire, CW7 3RT.

The Company's ordinary shares are traded on the Alternative Investment Market of the London Stock Exchange. The consolidated financial statements of the Company for the twelve months ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the 'Group').

The Group is primarily involved in the design, development and manufacture of novel high performance polymers (both natural and synthetic) for use in advanced woundcare dressings and materials, and medical adhesives, for closing and sealing tissue, for sale into the global medical device market.

2. Basis of preparation

The Group accounts have been prepared under International Financial Reporting Standards (IFRSs) as adopted by the EU.

The financial statements have been prepared on the historical cost basis of accounting except as disclosed in the accounting policies set out below.

The individual financial statements for each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

After making enquiries and on the basis outlined in the corporate governance section on page 34 the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the accounts.

The Group has applied IFRS 3 'Business Combinations' (revised 2008) and IAS 27 'Consolidated and Separate Financial Statements' (revised 2008). These have had no impact on this set of financial information.

3. Accounting policies

Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (estimated at 20 years) and a suitable discount rate to calculate present value.

Capitalisation of development costs

In determining the development expenses to be capitalised, estimates and assumptions are required based on expected future economic benefits generated by products that are the result of these development costs. Other important estimates and assumptions in this assessment process are the required internal rate of return, the distinction between research and development and the estimated useful life.

Share-based payments

The charge to the income statement in relation to options and incentive plans is based on the Black-Scholes Merton or the Binominal Theorem valuation technique. This technique requires a number of assumptions to be made such as those in relation to share price volatility, movement in interest rates, dividend yields and staff behavioural patterns.

Inventory impairment provisions

The Group makes provisions for inventory deemed to be obsolete or slow-moving. This provision is established on each individual stock keeping unit based on the age of the stock, the forward order book, management's experience and its assessment of the present value of estimated future cash flows.

Receivables impairment provisions

The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the present value of estimated future cash flows.

Deferred tax

A deferred tax asset is recognised when it is judged probable that the Group will generate taxable profits which can be offset against tax losses.

3. Accounting policies continued

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to retain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements on the basis of acquisition accounting, from the date that control commences until the date that control ceases.

Intercompany transactions and balances between Group entities are eliminated upon consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, the equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Revenue recognition

Revenue represents the fair value of sales of the Group's products to external customers at amounts excluding value added tax, and is recognised when the products have been delivered and title has passed. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue from royalty income receivable under licence agreements from external customers at amounts excluding value added tax is recognised as the products under licence are sold and the revenue can be reliably measured.

Other Income

This represents non-refundable up-front licence payments received for the grant of rights for the development and marketing of products, and other sundry income. The income is recognised in the income statement, over the life of each development project, in proportion to the stage of completion of each project when the outcome of each stage of completion can be assessed with reasonable certainty.

Finance Income

Finance income relates to interest earned on cash, cash equivalents and investments. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Finance Costs

Finance costs relate to finance payments associated with financial liabilities. They are recognised in the income statement as they accrue using the effective interest method.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Notes Forming Part of the Consolidated Financial Statements continued

3. Accounting policies continued

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates at the dates of the transactions. Exchange differences arising on consolidation are recognised in equity.

Taxation

Taxation expense includes the amount of current income tax payable and the charge for the year in respect of deferred taxation.

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the income statement because it excludes items of income or expenditure which are not taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another period. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for on a basis of temporary differences, except where it arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case it is dealt with within equity. It is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax laws enacted or substantively enacted by the balance sheet date.

Intangible assets

Acquired intellectual property rights

Intellectual property rights that are acquired in a business combination are initially recognised at their fair value. Intellectual property rights purchased outright are initially recognised at cost. Intellectual property rights are capitalised and amortised over their estimated useful economic lives, usually not exceeding 18 years. In determining the useful economic life, each asset is reviewed separately and consideration given to the period over which the Group expects to derive economic benefit from the asset.

Development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is recognised in the income statement as an expense in the period in which it is incurred.

Expenditure on development activities, where research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised once it can be demonstrated that the product or process is clearly identifiable, technically and commercially feasible, will generate future economic benefits, that the development costs of the asset can be measured reliably and that the Group has sufficient resources to complete development. Expenditure capitalised is stated as the cost of materials and direct labour less accumulated amortisation.

Where development expenditure results in new or substantially improved products or processes and it is probable that recovery will take place, it is capitalised and amortised on a straight-line basis over the product's useful life, starting from the date on which serial production commences, which is between one and ten years. Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, which is between three and twenty years.

Software intangibles

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised and categorised as intangible assets. Amortisation is provided on a straight-line basis over its economic useful life, which is in the range of three to five years.

3. Accounting policies continued

Property, plant and equipment

Land and buildings and plant and equipment held for use in the production of goods and services or for administrative purposes are carried in the balance sheet at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Group elected to use the fair value as the deemed cost in respect of land and buildings at the date of transition to IFRS. Fair value was calculated by reference to their existing use at the date of transition.

Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment over the expected useful life of the asset from the date that the asset is brought into use. It is calculated at the following rates:

- Freehold property and improvements – 4% per annum on cost
- Leasehold improvements – over the length of the lease
- Plant and machinery – 6.7% to 33.3% per annum on cost
- Fixtures and fittings – 33.3% per annum on cost
- Motor vehicles – 25% per annum on cost

Property, plant and equipment in the course of construction for production are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property, plant and equipment assets, commences when the assets are ready for their intended use.

No depreciation is provided on freehold land.

Impairment of tangible and intangible assets excluding goodwill

The carrying amount of the Group's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversal of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventory

Inventory is valued at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

The Group makes provision for inventory deemed to be irrecoverable or where the net realisable value is lower than cost. This provision is established on a stock keeping unit basis by reference to the age of the stock, the forward order book, management's experience and its assessment of the present value of estimated future cash flow.

Notes Forming Part of the Consolidated Financial Statements continued

3. Accounting policies continued

Financial Instruments

Classification of financial instruments

Financial instruments are classified as financial assets, financial liabilities or equity instruments.

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Recognition and valuation of financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and cash deposits and amounts under short-term guarantees (usually three months or less) that are held for the purpose of meeting short-term cash commitments, are subject to insignificant risk in change in value and that are readily convertible to a known amount of cash.

Investments

Cash held in accounts with more than 90 days' notice that are not required to meet short-term cash commitments are shown as an investment. The Group invests funds that are surplus to requirements in fixed rate deposits operating within parameters for credit ratings and credit limits for individual institutions that are approved and monitored by the Board.

Under IAS 39 'Financial instruments; recognition and measurement', such investments are classified as loans and receivables and are recognised at fair value on initial recognition and subsequently measured at amortised cost using the effective interest method.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. An impairment is made when it is likely that the balance will not be recovered in full. The recoverable amount is calculated as the present value of estimated future cash flows. Estimated future cash flows are not discounted due to the relatively short period of time between recognition of trade receivables and receipt of cash.

Recognition and valuation of equity instruments

Equity instruments are stated at par value. Any premium on issue is taken to the share premium account.

Recognition and valuation of financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Trade payables

Trade payables are initially recognised at fair value and are subsequently recognised at amortised cost using the effective interest method.

Other loans

Other loans are initially recognised at fair value and are subsequently recognised at amortised cost.

Financial liabilities at Fair Value Through Profit or Loss ('FVTPL')

A derivative that is not designated and effective as a hedging instrument is classified as held for trading. Financial liabilities are classified as FVTPL where the financial liabilities are held for trading.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. Fair value is determined in the manner described in note 27.

Derivative financial instruments

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in note 27.

3. Accounting policies continued

Derivative financial instruments continued

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss (included in administrative costs) immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship, with any unrealised gain or loss being recognised in equity. The Group currently designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges). A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Derivatives with remaining maturity of less than 12 months are presented as current assets or current liabilities.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held as finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments during the lease term at the inception of the lease. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement. Lease incentives, primarily up-front cash payments or rent-free periods, are capitalised and spread over the period of the lease term. Payments made to acquire operating leases are treated as prepaid lease expenses and amortised over the life of the lease.

Pensions

The Group operates a money purchase pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against the income statement represents the contributions payable to the scheme in respect of the accounting period.

Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based payment'. IFRS 2 has been applied to all options granted after 7 November 2002 that were unvested as of 1 January 2006.

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value as determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of options that will eventually vest.

Fair value is measured by use of a Black-Scholes Merton or a Binomial Theorem model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

Capital management

For the years ended 31 December 2009 and 31 December 2010, the Group has had net funds with minimal borrowings. Capital is managed by maximising retained profits. Working capital is managed in order to generate maximum conversion of these profits into cash and cash equivalents thereby maintaining capital.

Capital includes share capital, share premium, investment in own shares, share-based payments reserve, share-based payments deferred tax reserve, other reserve, translation reserve and retained earnings reserve. There are no externally imposed capital requirements on the Group.

Exceptional items

Exceptional items are those items that are unusual because of their size, nature or incidence, or that the directors consider should be disclosed separately to enable a full understanding of the Group's results. This includes non-recurring aborted transaction costs and site relocation costs (see note 6). Exceptional items have been presented separately on the face of the income statement. The directors consider that this presentation gives a fairer presentation of the results of the Group.

Employee Benefit Trusts

The Group operates an Employee Benefit Trust (EBT): 'Advanced Medical Solutions Group plc UK Employee Benefit Trust'.

The Group has de-facto control of the assets, liabilities and shares held by the Trust and bear their benefits and risks. The Group records assets and liabilities of the Trust as its own.

In compliance with IAS 32 'Financial Instruments: Presentation', shares held by the EBT are included in the consolidated balance sheet as a reduction in equity. Gains and losses on Group shares are recognised directly in reserves.

Notes Forming Part of the Consolidated Financial Statements continued

3. Accounting policies continued

IFRS not yet effective and not adopted early

The following IFRSs have been issued but have not been adopted by the Group in these financial statements as they are not yet effective:

Improvements to IFRS (issued in May 2010) is yet to be endorsed by the EU and contains amendments to several individual accounting standards which are effective for accounting periods beginning on or after 1 July 2010 or 1 January 2011. None of the amendments are expected to have a significant impact upon the Group's net results, net assets or disclosures.

IAS 24 'Related Party Disclosures' was revised by the IASB in 2009 and is effective for accounting periods beginning on or after 1 January 2011. The changes introduced relate mainly to disclosure requirements for government-related entities, and the definition of a related party, and are not expected to have a significant impact on the Group's disclosures. The revised standard was endorsed by the EU during 2010.

The amendments to IAS 32 'Classification of Rights Issues' (endorsed by the EU in 2009) and IFRS 7 'Disclosures – Transfer of Financial Assets' and IAS 12 'Deferred Tax: Recovery of Underlying Assets' (not yet endorsed by the EU) are effective for accounting periods beginning or after 1 February 2010, 1 July 2011 and 1 January 2012 respectively. They are not expected to have a significant impact upon the Group's net results, net assets or disclosures.

The following IFRS Interpretations Committee (IFRIC) amendments and interpretations have been issued but are not yet adopted by the Group:

- Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement'; and
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'.

The amendments and interpretations are effective for accounting periods commencing on or after 1 January 2011 and 1 July 2010 respectively. None of the amendments or interpretations are expected to have a significant impact upon adoption.

Unless otherwise listed above, no other standard, amendment or interpretation is likely to have a material effect on the Group's results, operations or financial position.

4. Segment information

For management purposes, the Group is organised into two business units, advanced woundcare and wound closure and sealants. These divisions are the basis on which the Group reports its segment information.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments, and related revenue, corporate assets, head office expenses and income tax assets. These are the measures reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

Business segments

The principal activities of the advanced woundcare business unit are the research, development, manufacture and distribution of novel, high performance polymers for use as wound dressings.

The principal activities of the wound closure and sealants business unit are the research, development, manufacture and distribution of medical adhesives and products for closing and sealing tissue.

Segment information about these businesses is presented below.

Year ended 31 December 2010	Advanced woundcare £'000	Wound closure & sealants £'000	Eliminations £'000	Consolidated £'000
Revenue				
External sales	**25,197**	**6,684**	**–**	**31,881**
Inter-segment sales	**–**	**–**	**–**	**–**
Total revenue	**25,197**	**6,684**	**–**	**31,881**
Result				
Segment result	**3,735**	**1,620**	**–**	**5,355**
Unallocated expenses				**(1,016)**
Profit from operations				**4,339**
Finance income				**12**
Finance costs				**(60)**
Profit before tax				**4,291**
Tax				**542**
Profit for the year				**4,833**

4. Segment information continued

At 31 December 2010 Other Information	Advanced woundcare £'000	Wound closure & sealants £'000	Eliminations £'000	Consolidated £'000
Capital additions:				
Software intangibles	**5**	**1**	**–**	**6**
Research and development	**162**	**5**	**–**	**167**
Property, plant and equipment	**3,514**	**144**	**–**	**3,658**
Depreciation and amortisation	**1,021**	**369**	**–**	**1,390**
Balance sheet				
Assets				
Segment assets	**25,856**	**6,053**	**–**	**31,909**
Unallocated assets				**1,076**
Consolidated total assets				**32,985**
Liabilities				
Segment liabilities	**3,946**	**944**	**–**	**4,890**
Unallocated liabilities				**295**
Consolidated total liabilities				**5,185**

The advanced woundcare segment's results include £1,001,000 of exceptional expenditure in respect of the site move.

Year ended 31 December 2009	Advanced woundcare £'000	Wound closure & sealants £'000	Eliminations £'000	Consolidated £'000
Revenue				
External sales	19,391	4,700	–	24,091
Inter-segment sales	43	–	(43)	–
Total revenue	19,434	4,700	(43)	24,091

Inter-segment sales are charged at prevailing market prices.

Result				
Segment result	3,492	801	–	4,293
Unallocated expenses				(1,890)
Profit from operations				2,403
Finance income				21
Finance costs				(30)
Profit before tax				2,394
Tax				390
Profit for the year				2,784

At 31 December 2009 Other Information	Advanced woundcare £'000	Wound closure & sealants £'000	Eliminations £'000	Consolidated £'000
Capital additions:				
Software intangibles	10	10	–	20
Research and development	297	4	–	301
Property, plant and equipment	6,570	165	–	6,735
Depreciation and amortisation	626	342	–	968
Balance sheet				
Assets				
Segment assets	22,868	5,710	–	28,578
Unallocated assets				1,217
Consolidated total assets				29,795
Liabilities				
Segment liabilities	4,413	988	–	5,401
Unallocated liabilities				1,544
Consolidated total liabilities				6,945

Notes Forming Part of the Consolidated Financial Statements continued

4. Segment information continued

Exceptional items of £909,000 incurred in respect of the site move are also included within the advanced woundcare segment.

Exceptional items of £763,000 incurred in respect of the aborted transaction are included in unallocated expenses.

Geographical segments

The advanced woundcare and wound closure and sealants segments operate mainly in the UK, with a sales office located in the USA. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services, based upon location of the Group's customers:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
United Kingdom	**8,323**	7,268
Europe excluding United Kingdom	**13,819**	10,269
United States of America	**9,154**	5,888
Rest of World	**585**	666
	31,881	24,091

All assets are classified as under the United Kingdom with the exception of assets held in The Netherlands of £2,555,000; the carrying value of assets held in the United States of America is immaterial.

5. Profit from operations

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Profit from operations is arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	**1,077**	678
Amortisation of:		
– acquired intellectual property rights	**168**	168
– software intangibles	**23**	26
– development costs	**121**	96
Operating lease rentals – plant and machinery	**184**	131
– land and buildings	**1,023**	575
Research and development costs expensed to the income statement	**1,289**	1,613
Cost of inventories recognised as expense	**16,427**	11,646
Staff costs	**10,223**	8,467
Fair value loss/(gain) on derivative financial instruments	**179**	(599)
Net foreign exchange (gain)/loss	**(63)**	513

6. Exceptional items

During 2010 the Group completed the rationalising of its two existing sites in Winsford into a new facility. During the year ended 31 December 2010 expenditure of £1,001,000 was incurred in respect of the site move (year ended 31 December 2009: £909,000).

On 9 April 2009, the Board announced that it had been pursuing an acquisition opportunity that had reached an advanced stage of discussions but which had been terminated. The costs incurred in the year ended 31 December 2009 in respect of this aborted transaction amounted to £763,000.

7. Auditor's remuneration

Amounts payable to Deloitte LLP and their associates in respect of both audit and non-audit services:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Audit services		
– Statutory audit of parent and consolidated financial statements	**10**	11
– Statutory audit of subsidiary companies	**35**	30
– Review of interim condensed consolidated financial statements	**10**	10
Tax services		
– Compliance services	**10**	10
Other services		
– Corporate finance services	**–**	368
– Employee remuneration services	**8**	–
– Other	**1**	–
	74	429

Fees payable to the Company's auditor, Deloitte LLP, and its associates, for services other than the statutory audit of the Company are not disclosed in subsidiaries' accounts because the consolidated accounts of the subsidiaries' parent, AMS Group plc, are required to disclose such fees on a consolidated basis.

A description of the work of the Audit Committee is set out in the corporate governance section of the annual report which includes explanations of how the audit objectivity and independence is safeguarded when non-audit services are provided by the auditor.

8. Employees

The average monthly number of employees of the Group during the year, including Executive Directors, was as follows:

	Year ended 31 December 2010 Number	Year ended 31 December 2009 Number
Production	**175**	157
Research and development	**19**	18
Sales and marketing	**37**	38
Administration	**27**	28
	258	241

Sales and marketing includes 3 people (2009: 2) employed in the United States.

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Staff costs for all employees, including Executive Directors, consists of:		
Wages and salaries	**8,358**	7,264
Social Security costs	**1,251**	705
Pension costs	**332**	296
Share-based payments (see note 34)	**282**	202
	10,223	8,467

9. Directors' emoluments

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Remuneration for management services	**559**	652
Pension	**47**	46
Amounts paid to third parties	**149**	110
Share-based payments	**111**	89
	866	897
Retirement benefits are accruing to the following number of directors under money purchase schemes	**3**	3

Notes Forming Part of the Consolidated Financial Statements continued

10. Key Management

The key management of the Group comprises the executive directors of the Group together with senior members of the management team. Their aggregate compensation is shown below:

Key management compensation (including executive directors)

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Salaries and short-term employee benefits	**1,237**	1,215
Pension	**92**	71
Termination payments	**37**	–
Share-based payments	**142**	127
	1,508	1,413

Executive directors

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Salaries and short-term employee benefits	**559**	652
Pension	**47**	46
Share-based payments	**111**	89
	717	787

Highest paid director

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Salaries and short-term employee benefits	**226**	287
Pension	**20**	20
Share-based payments	**37**	33
	283	340

11. Finance Income

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Bank interest	**1**	21
Rent deposit interest	**11**	–
	12	21

12. Finance costs

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Finance leases	**6**	5
Other loan interest	**24**	24
Bank Interest	**105**	1
Facility costs	**263**	–
Total interest expense	**398**	30
Less: Amounts included in the cost of qualifying assets	**(338)**	–
	60	30

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and was calculated by applying a capitalisation rate of 34% to expenditure on such assets. The Group's requirement for a facility (see page 34 for further information), was the result of investing in qualifying assets, in particular relating to the investment in the new facility in Winsford.

13. Taxation

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
a) Analysis of tax credit for the year		
Current tax:		
Corporation tax	**29**	18
Capital gains tax	**–**	–
Deferred tax	**513**	372
Taxation	**542**	390
b) Factors affecting tax credit for the year		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (28%) as explained below:		
Profit before taxation	**4,291**	2,394
Profit multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%)	**1,201**	670
Effects of:		
Expenses not deductible for tax purposes	**112**	49
Depreciation for period less than capital allowances	**(288)**	(76)
Utilisation and recognition of trading losses	**(755)**	(641)
Research and development relief	**(235)**	(336)
Share-based payments	**(577)**	(56)
Taxation	**(542)**	(390)

Following the budget in June 2010, the Finance (No 2) Act 2010 included a reduction in the rate of Corporation Tax from 28% to 27% effective from 1 April 2011. In addition to the amount charged to the income statement and other comprehensive income, the Group has recognised directly in equity:

- excess tax deductions related to share-based payments on exercised options together with;
- changes in excess deferred tax deductions related to share-based payments,

totalling £179,000 (2009: deficit £5,000).

14. Dividends

The Company is proposing a maiden final dividend of 0.38p per share (2009: nil), which is not recognised as a liability at the year end. The dividend is to be paid to shareholders on the register at close of business on 13 May 2011. Based on the register at the date of approval of these financial statements the total dividend will be £588,000.

15. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent		
– pre exceptional items	**5,834**	4,456
– post exceptional items	**4,833**	2,784
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**152,366**	144,166
Effect of dilutive potential ordinary shares:		
Share options, deferred share bonus, LTIPs	**2,538**	11,200
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**154,904**	155,366
Earnings per share	**pence**	pence
Basic – pre exceptional items	**3.83p**	3.09p
post exceptional items	**3.17p**	1.93p
Diluted – pre exceptional items	**3.77p**	2.87p
post exceptional items	**3.12p**	1.79p

Notes Forming Part of the Consolidated Financial Statements continued

16. Acquired intellectual property rights, software intangibles and development costs

	Acquired intellectual property rights £'000	Software intangibles £'000	Development costs £'000
2010			
Cost			
At beginning of year	2,518	195	1,002
Additions	–	5	167
At end of year	2,518	200	1,169
Amortisation			
At beginning of year	1,288	161	277
Charged in the year	168	23	121
At end of year	1,456	184	398
Net book value			
At 31 December 2010	**1,062**	**16**	**771**
At 31 December 2009	1,230	34	725

Intangible assets are amortised on a straight-line basis and the amortisation is recognised within administration costs.

Acquired intellectual property rights were initially recognised on the acquisition of Advanced Medical Solutions (Plymouth) Limited and represent patents held by the company.

	Acquired intellectual property rights £'000	Software intangibles £'000	Development costs £'000
2009			
Cost			
At beginning of year	2,518	175	701
Additions	–	20	301
At end of year	2,518	195	1,002
Amortisation			
At beginning of year	1,120	135	181
Charged in the year	168	26	96
At end of year	1,288	161	277
Net book value			
At 31 December 2009	1,230	34	725
At 31 December 2008	1,398	40	520

17. Property, plant and equipment

	Freehold land, property and improvements £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
2010							
Cost							
At beginning of year	1,063	450	11,671	192	44	5,939	19,359
Additions	–	–	486	38	–	3,133	3,657
Transfer of assets into use	–	–	5,466	396	–	(5,862)	–
Disposals	–	(76)	(1,781)	–	–	–	(1,857)
Exchange Adjustment	–	–	(60)	–	–	–	(60)
At end of year	1,063	374	15,782	626	44	3,210	21,099
Depreciation							
At beginning of year	20	446	8,407	158	44	–	9,075
Provided for the year	4	2	1,037	34	–	–	1,077
Disposals	–	(76)	(1,781)	–	–	–	(1,857)
Exchange Adjustment	–	–	(24)	–	–	–	(24)
At end of year	24	372	7,639	192	44	–	8,271
Net book value							
At 31 December 2010	**1,039**	**2**	**8,143**	**434**	**–**	**3,210**	**12,828**
At 31 December 2009	1,043	4	3,264	34	–	5,939	10,284

At 31 December 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1,510,000 (2009 £2,659,000). Plant and machinery includes capitalised borrowing costs (see note 12 for further information).

The net book value of plant and equipment includes £62,000 of plant and machinery (2009: £56,000) held under finance leases. The related depreciation charge for the year was £17,000 for plant and machinery (2009: £17,000).

	Freehold land, property and improvements £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
2009							
Cost							
At beginning of year	1,063	450	9,271	182	44	641	11,651
On acquisition of subsidiary	–	–	1,104	–	–	–	1,104
Additions	–	–	348	10	–	6,408	6,766
Transfer of assets into use	–	–	1,110	–	–	(1,110)	–
Disposals	–	–	(132)	–	–	–	(132)
Exchange adjustments	–	–	(30)	–	–	–	(30)
At end of year	1,063	450	11,671	192	44	5,939	19,359
Depreciation							
At beginning of year	16	445	7,794	153	44	–	8,452
Provided for the year	4	1	668	5	–	–	678
Disposals	–	–	(55)	–	–	–	(55)
At end of year	20	446	8,407	158	44	–	9,075
Net book value							
At 31 December 2009	1,043	4	3,264	34	–	5,939	10,284
At 31 December 2008	1,047	5	1,477	29	–	641	3,199

Notes Forming Part of the Consolidated Financial Statements continued

18. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	Revaluation of building £'000	Share-based payment £'000	Tax losses £'000	Total £'000
At 1 January 2009	(74)	655	1,464	2,045
Credit to income	–	56	316	372
Credit to equity	–	5	–	5
At 31 December 2009	(74)	716	1,780	2,422
(Charge)/credit to income	–	(16)	529	513
Charge to equity	–	(179)	–	(179)
At 31 December 2010	**(74)**	**521**	**2,309**	**2,756**

Maturity of the deferred tax asset is as follows:

	2010 £'000	2009 £'000
Less than one year	**1,080**	790
Greater than one year	**1,676**	1,632
	2,756	2,422

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2010 £'000	2009 £'000
Deferred tax liabilities	**(74)**	(74)
Deferred tax assets	**2,830**	2,496
	2,756	2,422

At the balance sheet date, the Group has unused tax losses of £27.4 million (2009: £29.1 million) available for offset against future profits. A deferred tax asset of £2.3 million (2009: 1.8 million) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining £19.1 million (2009: £24.0 million) of such losses due to the unpredictability of future profit streams.

19. Investment in joint venture

On 30 May 2008 the Group and Recticel formed a joint venture relating to Corpura B.V. (now Advanced Medical Solutions B.V.), Recticel's fully owned subsidiary; the Group acquired 49.4% of the issued share capital of Corpura B.V..

On 30 September 2009 the Group purchased Recticel's share of the joint venture relating to Corpura B.V., which represented 50.6% of issued share capital. See note 33 for further information regarding this transaction.

Amounts from the joint venture recognised in the income statement are as follows:

	2010 £'000	2009 £'000
Operating profit	**–**	(47)
Less: interest	**–**	(32)
Less: tax	**–**	–
		(79)
Less: provision for unrealised profit	**–**	13
Share of results of joint venture	**–**	(66)

Net book value of interest in joint venture

	2010 £'000	2009 £'000
At 1 January	**–**	1,749
Movement in interest in associate	**–**	(79)
On acquisition of 50.6% of Corpura B.V.	**–**	(1,573)
Exchange	**–**	(97)
At 31 December	**–**	–

20. Goodwill

	2010 £'000	2009 £'000
Cost		
At 1 January	**2,978**	–
Recognised on acquisition of a subsidiary	**–**	3,062
Exchange differences	**(100)**	(84)
At 31 December	**2,878**	2,978
Accumulated impairment losses		
At 1 January and 31 December	**–**	–
Carrying amount		
At 31 December	**2,878**	2,978

Goodwill arose on the acquisition of Advanced Medical Solutions B.V. on 30 September 2009.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount in respect of Advanced Medical Solutions B.V. has been determined based on a value-in-use calculation, which uses cash flow projections based on financial budgets approved by the directors covering a three-year period. These budgets have been adjusted to reflect the existing state of the business and, consequently, omit investment plans. Cash flows beyond that three-year period have been extrapolated using a steady 2% (2009: not applicable) per annum growth rate; the growth rate would have to fall from +2.0% to -3.2% in order for an impairment to be required. This growth rate does not exceed the long-term average growth rate for the market in which Advanced Medical Solutions B.V. operates. A discount rate of 8% per annum (2009: not applicable) has been applied to these cash flows. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause Advanced Medical Solutions B.V.'s carrying amount to exceed its recoverable amount.

21. Inventories

	2010 £'000	2009 £'000
Raw materials	**1,392**	1,419
Work in progress	**596**	1,465
Finished goods	**510**	295
	2,498	3,179

There is no material difference between the replacement cost of inventories and the amount at which it is stated in the financial statements.

Included above are finished goods of £12,000 (2009: £4,000) carried at net realisable value.

	2010 £'000	2009 £'000
Total gross inventories	**2,827**	3,613
Inventory impairment	**(329)**	(434)
Net inventory	**2,498**	3,179

Inventory impairment	2010 £'000	2009 £'000
At beginning of year	**(434)**	(321)
Income statement charge	**(281)**	(179)
Provision released	**76**	12
Provision utilised	**310**	54
At end of year	**(329)**	(434)

Notes Forming Part of the Consolidated Financial Statements continued

22. Trade and other receivables

	2010 £'000	2009 £'000
Due within one year		
Trade receivables	**5,282**	5,604
Other receivables	**294**	752
Prepayments and accrued income	**459**	589
	6,035	6,945

	2010 £'000	2009 £'000
Amount receivable for the sale of goods	**5,436**	5,694
Provision for impairment	**(154)**	(90)
Trade receivables	**5,282**	5,604

The Group's principal financial assets are cash and trade receivables. The Group's credit risk is primarily attributable to its trade receivables.

The average credit period taken on sales of goods is 52 days (2009: 54 days). No interest is charged on the receivables within the contracted credit period. Thereafter, interest may be charged at 2% per month on the outstanding balance. In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the Group's large and unrelated customer base. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for impairments.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits are reviewed on an ongoing basis and reflect current payment history.

Included in the Group's trade receivable balance are debtors which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances. The carrying amount and ageing of these debtors are summarised below:

Ageing of overdue but not impaired receivables

	2010 £'000	2009 £'000
31 to 60 days overdue	**264**	145
61 to 90 days overdue	**374**	45
Total	**638**	190

Movement in provision for impairment

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Balance at the beginning of the year	**90**	10
Impairment losses recognised	**76**	103
Amounts written off as uncollectible	**(12)**	(13)
Amounts recovered during the year	**–**	(10)
Balance at the end of the year	**154**	90

Analysis of customers
Year ended 31 December 2010

	Revenue £'000	% of total revenue
Customers accounting for more than 10% of revenue – Customer 1	**3,366**	10.5

Year ended 31 December 2009

	Revenue £'000	% of total revenue
Customers accounting for more than 10% of revenue		
– Customer 3	2,477	10.3
– Customer 2	3,439	14.3
– Customer 1	3,386	14.1

22. Trade and other receivables continued

Ageing of impaired trade receivables

	2010 £'000	2009 £'000
31 to 60 days overdue	**2**	–
61 to 90 days overdue	**–**	–
Over 90 days overdue	**152**	90
Total	**154**	90

23. Investments, cash and cash equivalents

	2010 £'000	2009 £'000
Cash and cash equivalents	**4,122**	1,992
Total	**4,122**	1,992

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

24. Trade and other payables

	2010 £'000	2009 £'000
Current liabilities		
Trade payables	**1,642**	2,468
Other payables	**466**	347
Derivative financial instruments	**102**	26
Accruals and deferred income	**1,588**	3,046
	3,798	5,887
Non-current liabilities		
Other payables	**677**	278

Trade payables, other payables and accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs.

At 31 December 2009, accruals and deferred income included deferred consideration of £1,265,000 (31 December 2010: nil) relating to the acquisition of Advanced Medical Solutions B.V. (see note 33). The average credit period taken for trade purchases is 71 days (2009: 72 days). No interest is charged on trade payables that are within pre-agreed credit terms. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value.

25. Current financial liabilities

	2010 £'000	2009 £'000
Obligations under finance leases (see note 28)	**19**	16
Other loans	**18**	18
	37	34

26. Non-current financial liabilities

	2010 £'000	2009 £'000
Obligations under finance leases (see note 28)	**23**	39
Other loans	**226**	244
	249	283

The loan is secured by a fixed charge on the freehold property. It is repayable in monthly instalments and interest is payable at 8% fixed rate. The maturity by currency of finance leases and other loans is given in note 27.

Notes Forming Part of the Consolidated Financial Statements continued

27. Financial instruments

Categories of financial instruments

All financial instruments held by the Group, as detailed in this note, are classified as 'Loans and Receivables' (trade and other receivables, cash and cash equivalents), 'Held to maturity investments' (short-term investments), 'Financial Liabilities Measured at Amortised Cost' (trade and other payables, financial liabilities and obligations under finance leases), 'Derivative instruments in designated hedge accounting relationships (cash flow hedges)' and 'Fair value through profit and loss (FVTPL)' (derivative financial instruments) under IAS 39 'Financial Instruments: Recognition and Measurement' and finance leases under IAS 17 ' Leases'.

	Carrying value	
	2010 £'000	2009 £'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**10,176**	8,943
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	**102**	26
Amortised cost	**4,659**	6,456

Page 26 of the Report of the Directors provides an explanation of the financial risks faced by the Group and the objectives and policies for managing those risks. The information below deals with the financial assets and liabilities.

(a) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, of which other loans and finance lease obligations are at fixed rates and denominated in sterling whilst derivative financial instruments are non-interest bearing, is as follows:

	On demand or within one year £'000	Between one and two years £'000	Between two and five years £'000	Five years or more £'000	Total financial liabilities £'000	Interest rate %
2010						
Trade and other payables	3,696	53	158	466	4,373	–
Other loans	18	20	70	136	244	8.5
Finance lease creditors	19	17	6	–	42	11.6
Derivative financial instruments	102	–	–	–	102	–
At 31 December 2010	**3,835**	**90**	**234**	**602**	**4,761**	

	On demand or within one year £'000	Between one and two years £'000	Between two and five years £'000	Five years or more £'000	Total financial liabilities £'000	Interest rate %
2009						
Trade and other payables	5,861	16	48	214	6,139	–
Other loans	18	20	70	154	262	8.5
Finance lease creditors	16	16	23	–	55	8.2
Derivative financial instruments	26	–	–	–	26	–
At 31 December 2009	5,921	52	141	368	6,482	

	Fixed rate financial liabilities Weighted average period for which rate is fixed		Financial liabilities on which no interest is paid Weighted average period until maturity	
	2010 Years	2009 Years	**2010 Years**	2009 Years
Other loans	**9**	10	**–**	–
Finance lease creditors	**4**	4	**–**	–

27. Financial instruments continued

(b) Interest rate and currency of financial assets

The currency and interest rate profile of the financial assets of the Group is as follows:

Investments and cash and cash equivalents

	Total £'000	Floating £'000	Fixed £'000	Non-interest bearing £'000	Fixed rate weighted average interest rate %
Currency					
Sterling	2,027	2,027	–	–	–
US Dollar	1,743	352	–	1,391	–
Euro	352	–	–	352	–
At 31 December 2010	**4,122**	**2,379**	**–**	**1,743**	

	Total £'000	Floating £'000	Fixed £'000	Non-interest bearing £'000	Fixed rate weighted average interest rate %
Currency					
Sterling	1,214	1,214	–	–	–
US Dollar	521	–	–	521	–
Euro	257	–	–	257	–
At 31 December 2009	1,992	1,214	–	778	

Trade and other receivables

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

	2010 £'000	2009 £'000
Sterling	**4,106**	5,006
Euro	**721**	526
US Dollar	**1,208**	1,413
	6,035	6,945

The financial assets all mature within one year.

(c) Currency exposures

At 31 December 2010 the Group had unhedged US Dollar currency exposures of £2,289,000 (2009: £1,689,000) and unhedged Euro currency exposures of £544,000 (2009: £140,000).

Risk sensitivity

See Report of the Directors (page 26) for risk sensitivities in respect of US dollar and Euro denominated revenue and material prices.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts.

Notes Forming Part of the Consolidated Financial Statements continued

27. Financial instruments continued

The following table details the forward foreign currency contracts outstanding as at the year-end:

Outstanding Contracts	Average exchange rate		Foreign currency		Contract value		Fair value: Loss	
	2010	2009	**2010**	2009	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Cash flow hedges								
Sell US dollars	USD# : £1	USD# : £1	USD'000	USD'000				
Less than 3 months	**1.592**	1.660	**1,000**	1,200	**629**	723	**14**	11
3 to 6 months	**1.585**	1.669	**1,600**	300	**1,011**	180	**18**	4
7 to 12 months	**1.599**	1.645	**3,100**	2,970	**1,940**	1,805	**55**	11
			5,700	4,470	**3,580**	2,708	**87**	26
Sell Euros	EUR# : £1	EUR# : £1	EUR'000	EUR'000				
Less than 3 months	**1.180**	–	**150**	–	**127**	–	**2**	–
3 to 6 months	**1.180**	–	**150**	–	**127**	–	**2**	–
7 to 12 months	**1.179**	–	**790**	–	**670**	–	**11**	–
			1,090	–	**924**	–	**15**	–

The fair value amounts presented above are the difference between the market value of equivalent instruments at the balance sheet date and the contract value of the instruments. No profits or losses are included in operating profit in the year (2009: £599,000 gain) in respect of FVTPL contracts. The loss of £102,000 (2009: £26,000 loss) in respect of cash flow hedges has been taken to reserves, which is off-set by the release of 2009's loss of £26,000, leading to a net movement of £76,000 in the year.

28. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Amounts payable under finance leases:				
Within one year	**19**	21	**19**	16
In the second to fifth years inclusive	**31**	44	**23**	39
After five years	**–**	–	**–**	–
Less: future finance charges	**(8)**	(10)		
Present value of lease obligations	**42**	55	**42**	55
Less: Amount due for settlement within 12 months (shown under current financial liabilities)			**(19)**	(16)
Amount due for settlement after 12 months			**23**	39

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is four years (2009: four years). For the year ended 31 December 2010, the average effective borrowing rate was 11.6% (2009: 8.2%). Interest rates are fixed at the contract date. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount.

29. Fair value of financial assets and liabilities

The directors consider that the fair value of the Group's financial instruments do not differ significantly from their book values.

30. Foreign exchange rates

	Average rate		Closing rate		Percentage change	
	2010	2009	**2010**	2009	Average %	Closing %
Currency						
US Dollar	**1.547**	1.567	**1.566**	1.615	(1)	(3)
Euro	**1.164**	1.123	**1.167**	1.126	4	4

31. Share capital

Number of ordinary shares of 5p each

	Authorised '000	Allotted, called up and fully paid '000
At 1 January 2009	206,447	143,398
New issues in the year	–	162
Share options exercised	–	1,405
At 31 December 2009	206,447	144,965
New issues in the year	–	100
Share options exercised	–	9,740
At 31 December 2010	**206,447**	**154,805**

During the year, employees exercised share options of 9,740,000 shares at a range of option prices from 0p to 34p. On 5 May 2010 100,000 shares were issued under the Deferred Share Bonus Scheme at the nominal value of 5p per share; 519,000 shares are retained by the scheme to meet the matching requirements of the scheme.

Ordinary shares of 5p each

	Authorised £'000	Allotted, called up and fully paid £'000
At 1 January 2009	10,322	7,169
At 31 December 2009	10,322	7,248
New issues in the year	–	5
Share options exercised	–	487
At 31 December 2010	**10,322**	**7,740**

32. Reserves

Investment in own shares

This is the nominal value of the shares held in trust on behalf of employees in respect of the DSB scheme.

Other reserve

This represents Advanced Medical Solutions Limited's share premium account arising from merger accounting.

33. Acquisition of subsidiary

On 30 September 2009 the Group acquired the remaining 50.6% of the issued share capital of Corpura B.V., having acquired 49.4% on 30 May 2008. Corpura B.V. develops and produces hydrophilic polyurethane foams in Etten Leur, the Netherlands. This transaction has been accounted for by the purchase method of accounting.

	Book value £'000	Fair value £'000
Net assets acquired		
Intellectual property	137	–
Property, plant and equipment	1,278	1,104
Inventories	214	122
Trade and other receivables	272	272
Cash and cash equivalents	169	169
Trade and other payables	(202)	(202)
Loans	(1,403)	(1,403)
	465	62
Goodwill (see note 20)		3,062
Total consideration		3,124

Notes Forming Part of the Consolidated Financial Statements continued

33. Acquisition of subsidiary continued

Goodwill is denominated in euros in line with Corpura B.V.'s functional currency. Retranslation of goodwill at the closing euro rate on 31 December 2010 led to a reduction in the goodwill recorded on the balance sheet to £2,878,000 (2009: £2,978,000) – see note 20. This translation difference of £100,000 (2009: £84,000) is recognised within the Group's translation reserve.

Satisfied by:	£'000
Cash: Paid up to 31 December 2009	1,687
Deferred consideration (translated at the exchange rate prevailing on acquisition): settled during the year ended 31 December 2010	1,302
Directly attributable costs	135
	3,124

The above consideration includes amounts paid in 2008 in respect of the formation of the joint venture totalling £1,376,000 (cash of £1,276,000; directly attributable costs £100,000) together with exchange gains on these euro-denominated transactions at 30 September 2009 amounting to £277,000. Re-translation of the deferred consideration, which was denominated in euros, at 31 December 2009 led to a reduction in the amount recorded on the balance sheet to £1,265,000; the translation difference of £37,000 being recognised within the Group's translation reserve.

Net cash flow arising on acquisition	**Year ended 31 December 2010 £'000**	Year ended 31 December 2009 £'000
Cash consideration, including directly attributable costs, translated at prevailing exchange rates	**1,255**	238
Cash acquired	**–**	(169)
	1,255	69

The goodwill arising on the acquisition of Corpura B.V. is attributable to the anticipated improved profitability of the Company and the development of new products utilising the Company's platform material for delivering new technologies that can help accelerate wound healing, neither of which relates to separately identifiable assets.

Corpura B.V. contributed £701,000 to revenue and £21,000 to profit before tax for the period between the date of acquisition and 31 December 2009.

If the acquisition of Corpura B.V. had been completed on the first day of the financial year ended 31 December 2009, group revenues for the period would have been £25,468,000 and the Group profit attributable to equity holders of the parent would have been £2,711,000.

34. Share-based payments

The charge for share-based payments under IFRS 2, included in administrative expenses, arises across the following schemes:

	2010 £'000	2009 £'000
Unapproved Executive Share Option Scheme, Enterprise Management Incentive Scheme and Company Share Option Plan	**62**	29
Long Term Incentive Plan	**101**	101
Deferred Share Bonus Scheme	**119**	72
	282	202

34. Share-based payments continued

Unapproved Executive Share Option Scheme, Enterprise Management Incentive Scheme and Company Share Option Plan

The fair value of the executive options is calculated based on a Black-Scholes Merton model assuming the inputs below:

Grant Date	15/7/04	16/7/04	21/3/05	12/9/05	15/3/06	6/4/06	21/9/06	12/04/07	26/09/07
Share price at grant date	9p	9p	10.2p	9.25p	10.75p	10.75p	11.25p	16.75p	26.75p
Exercise price	9p	9p	10.2p	9.25p	10.75p	10.75p	11.25p	16.75p	26.75p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk free rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	5.0%	5.0%
Expected volatility	30%	30%	30%	30%	30%	30%	30%	27%	27%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
Fair value of options	2p	1p	1p	1p	2p	1p	1p	2p	4p

Grant Date	16/4/08	15/10/08	20/4/09	5/10/09	16/4/10	20/10/10
Share price at grant date	32.25p	31.75p	33.75p	28.75p	42.0p	64.0p
Exercise price	32.25p	31.75p	33.75p	28.75p	42.0p	64.0p
Expected life	3.5 yrs	3.5 yrs	3 yrs	3 yrs	3 .5yrs	3 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk free rate	5.0%	5.0%	2.4%	2.4%	2.4%	2.4%
Expected volatility	38%	38%	34%	34%	34%	34%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Fair value of options	8p	8p	6p	5p	9p	8p

Under the terms of the Company's Share Option Schemes, approved by Shareholders in 1999 and amended in 2001 and 2002, the Board may offer options to purchase ordinary shares in the Company to all employees of the Company at the market price on a date to be determined prior to the date of the offer. Since 2005, individuals who are entitled to awards under the LTIP are no longer eligible to receive options under the Company's Share Option Schemes.

Performance targets are assessed over a three-year period from the date of grant. Once options have vested they can be exercised during the period up to ten years from the date of grant.

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

Notes Forming Part of the Consolidated Financial Statements continued

34. Share-based payments continued

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 2010.

Date of grant	Option price (p)	Weighted average price at exercise (p)	**No of options as at 1 January 2010**	**Remaining life 1 January 2010 (years)**	Issued	Lapsed	Exercised	No of options as at 31 December 2010	Remaining life 31 December 2010 (years)
Unapproved Executive Share Option Scheme									
15.07.04	9.00	35.00	**234,722**	**4.5**	–	–	234,722	–	–
12.04.07	16.75	71.50	**50,000**	**7.3**	–	–	50,000	–	–
20.04.09	33.75	–	**70,000**	**9.3**	–	–	–	70,000	8.3
16.04.10	42.00	–	**–**		389,000	–	–	389,000	9.3
20.10.10	64.00	–	**–**		306,250	–	–	306,250	9.8
Enterprise Management Incentive Scheme									
15.07.04	9.00	35.49	**776,401**	**4.5**	–	–	760,593	15,808	3.5
16.07.04	9.00	65.50	**7,324**	**4.5**	–	–	2,500	4,824	3.5
21.03.05	10.20	35.00	**16,000**	**5.2**	–	–	16,000	–	–
12.09.05	9.25	39.55	**11,000**	**5.7**	–	–	11,000	–	–
15.03.06	10.75	37.74	**649,000**	**6.2**	–	–	648,000	1,000	5.2
06.04.06	10.75	35.00	**150,000**	**6.3**	–	–	150,000	–	–
21.09.06	11.25	35.00	**22,000**	**6.7**	–	–	10,000	12,000	5.7
12.04.07	16.75	41.68	**1,282,610**	**7.3**	–	–	947,196	335,414	6.3
26.09.07	26.75	–	**13,000**	**7.7**	–	–	–	13,000	6.7
16.04.08	32.25	–	**197,500**	**8.3**	–	–	–	197,500	7.3
15.10.08	31.75	–	**45,000**	**8.8**	–	–	–	45,000	7.8
20.04.09	33.75	–	**626,500**	**9.3**	–	90,000	–	536,500	8.3
05.10.09	28.75	–	**372,500**	**9.8**	–	15,000	–	357,500	8.8
16.04.10	42.00	68.75	**–**		1,142,130	93,250	250	1,048,630	9.3
Company Share Option Plan									
20.10.10	64.00	–	**–**		118,750	–	–	118,750	9.8
			4,523,557		1,956,130	198,250	2,830,261	3,451,176	

The weighted average remaining contractual life of the options outstanding at 31 December 2010 is 8.7 years (2009: 7.0 years)

	2010		2009	
	Number of Options	**Weighted average exercise price (p)**	Number of Options	Weighted average exercise price (p)
Outstanding at beginning of the period	**4,523,557**	**18.34**	5,049,700	13.29
Granted	**1,956,130**	**46.78**	1,069,000	32.00
Exercised	**(2,830,261)**	**38.69**	(1,455,950)	33.37
Forfeited	**(198,250)**	**37.25**	(139,193)	24.65
Outstanding at end of the period	**3,451,176**	**38.37**	4,523,557	18.34
Exercisable at end of period	**382,046**	**16.48**	1,866,447	9.79

Long Term Incentive Plan (LTIP)

The fair value of the LTIP is calculated based on a binominal tree model assuming the inputs below:

Grant date	12/10/05	12/04/07	15/10/08	23/4/09	16/4/10
Share price of grant date	8.75p	16.75p	31.75p	33.30p	42.00p
Exercise price	0p	0p	0p	0p	0p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3.0 yrs	3.0 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	4.5%	5.0%	4.2%	2.4%	1.9%
Expected volatility	30%	27%	33%	34%	36%
Expected dividend yield	0%	0%	0%	0%	0.7%
Probability of performance conditions	40%	43%	100%	43%	51%
Fair value of option	2p	4p	31.7p	14.5p	41.1p

34. Share-based payments continued

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 29. The numbers shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved.

Date of grant	Market price at date of Grant (p)	**Number of LTIPs at 1 January 2010**	**Remaining life 1 January 2010 (years)**	Issued	Lapsed	Exercised	**Number of LTIPs 31 December 2010**	**Remaining life 31 December 2010 (years)**
Long Term Incentive Plan								
12.10.05	8.75	**3,713,744**	**5.8**	–	–	3,713,744	**–**	**–**
12.04.07	16.75	**2,710,000**	**7.3**	–	–	2,710,000	**–**	**–**
15.10.08	31.75	**500,000**	**8.8**	–	200,000		**300,000**	**7.8**
23.4.09	33.30	**1,076,485**	**9.3**	–	–	–	**1,076,485**	**8.3**
16.04.10	42.00	**–**	**–**	140,000	30,000	–	**110,000**	**9.3**
		8,000,229		140,000	230,000	6,423,744	**1,486,485**	

The weighted average remaining contractual life of the LTIPs outstanding at 31 December 2010 is 8.3 years (2009: 7.5 years).

	2010 Number of Options	2009 Number of options
Outstanding at beginning of the period	**8,000,229**	7,023,744
Granted	**140,000**	1,076,485
Exercised	**(6,423,744)**	–
Forfeited	**(230,000)**	(100,000)
Outstanding at end of the period	**1,486,485**	8,000,229
Exercisable at end of period	**–**	3,713,744

The exercise price of these options is £1 for each issue of LTIPs.

Deferred Share Bonus Scheme (DSB)

The fair value of the DSB is calculated based on a Black-Scholes Merton model assuming the inputs below:

Grant date	12/04/07	12/04/07	02/05/08	04/06/08	23/04/09	05/05/10	05/05/10
Share price at grant date	18.25p	18.25p	35.50p	35.50p	34.00p	40.32p	40.32p
Exercise price	0p	0p	0p	0p	0p	0p	0p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.0 yrs	5.0 yrs	3.0 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	5.0%	5.0%	5.0%	5.0%	2.4%	2.4%	2.4%
Expected volatility	27%	27%	38%	38%	30%	34%	34%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%
Probability of performance conditions	100%	67%	100%	100%	100%	100%	100%
Fair value of option	14p	9p	30p	28p	29p	34p	34p

The expected volatility was determined by calculating the historic volatility of the Group's share price over the previous three years.

Notes Forming Part of the Consolidated Financial Statements continued

34. Share-based payments continued

The weighted average remaining contractual life of the DSB outstanding at 31 December 2010 is 8.4 years (2009: 8.2 years). The entitlement to shares under the DSB is subject to a three year holding period. Additionally, for certain levels of share matching, additional performance conditions also need to be achieved. The actual number of shares that will be matched will depend on these performance conditions. Details on the DSB are given on page 29.

Date of grant	Market price at date of Grant (p)	**Number of DSB matching shares at 1 January 2010**	**Remaining life 1 January 2010 (years)**	Issued	Lapsed	Exercised	**Number of DSB matching shares at 31 December 2010**	**Remaining life 31 December 2010 (years)**
Deferred Share Bonus Scheme								
12.04.07	18.25	**667,549**	**7.3**	–	–	456,169	**211,380**	**6.3**
02.05.08	35.50	**219,524**	**8.3**	–	72,675	25,352	**121,497**	**7.3**
04.06.08	35.50	**141,787**	**8.4**	–	–	–	**141,787**	**7.4**
23.04.09	34.00	**459,970**	**9.3**	–	10,293	22,057	**427,620**	**8.3**
05.05.10	40.32	**–**	**–**	819,681	18,600	–	**801,081**	**9.3**
		1,488,830		819,681	101,568	503,578	**1,703,365**	

Deferred Share Bonus Scheme

	2010 Number of Options	2009 Number of options
Outstanding at beginning of the period	**1,488,830**	1,037,747
Granted	**819,681**	459,970
Exercised	**(503,578)**	–
Forfeited	**(101,568)**	(8,887)
Outstanding at end of the period	**1,703,365**	1,488,830
Exercisable at end of period	**211,380**	–

The exercise price of the matching shares is £nil.

35. Commitments under operating leases

As at 31 December 2010, the Group had outstanding commitments under operating leases, which fall due as follows:

	2010 Land and buildings £'000	**2010 Other £'000**	2009 Land and buildings £'000	2009 Other £'000
Amounts payable under operating leases:				
Within one year	**847**	**31**	666	44
In two to five years	**3,171**	**151**	3,173	100
After five years	**6,929**	**–**	2	–
	10,947	**182**	10,904	146

36. Related party transaction

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint venture during the period prior to the acquisition of a controlling interest are disclosed below. Transactions between the Company and its subsidiaries and joint venture are disclosed in the Company's separate financial statements.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group.

	Sale of goods		Purchase of goods		Amounts owed by related parties		Amounts owed to related parties	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Joint venture	**–**	–	**–**	274	**–**	–	**–**	–

Purchases were made at arm's length and were made at market price discounted to reflect the quantity of goods purchased and the relationship between the parties.

The remuneration of the Board of directors, who are considered key management personnel of the Group, is provided in the remuneration report on pages 29 to 31.

Company Balance Sheet

At 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Investments	3	**10,280**	11,631
Current assets			
Debtors	4	**390**	484
Cash at bank and in hand		**–**	107
		390	591
Creditors: amounts falling due within one year	5	**(415)**	(1,534)
Net current liabilities		**(25)**	(943)
Net assets		**10,255**	10,688
Capital and reserves			
Called up share capital		**7,740**	7,248
Share-based payments reserve		**442**	502
Investment in own shares		**(37)**	(27)
Share premium account		**306**	99
Profit and loss account		**1,804**	2,866
Equity shareholders' funds		**10,255**	10,688

The financial statements of Advanced Medical Solutions Group plc (registration number 2867684) on pages 67 to 70 were approved by the Board of directors and authorised for issue on 20 April 2011 and were signed on its behalf by:

Chris Meredith
Chief Executive Officer
20 April 2011

Notes to the Company Financial Statements

Year ended 31 December 2010

1. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

The Company has taken advantage of the exemption of FRS8 from disclosing transactions with other members of the Group and the exemption in FRS29 for making disclosures in relation to financial instruments.

Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Share-based payments

The Company has applied the requirements of FRS20 'Share-based payment'. In accordance with the transitional provisions, FRS20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as at 1 January 2005.

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value as determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes Merton model. The expected life used in the model has been adjusted, based on management's best-estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

Liquid resources

Liquid resources comprise variable term deposits that are accessible with less than 12 months' notice.

2. Loss for the year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. AMS Group plc reported a loss for the financial year ended 31 December 2010 of £1,062,000 (2009: £2,325,000).

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

The Company had no employees. The directors' remuneration is detailed in note 9 to the consolidated financial statements.

3. Fixed asset investments

	Investments in subsidiaries £'000	Loans £'000	Total £'000
Cost			
At 1 January 2010	5,040	43,836	48,876
Movement	277	(1,690)	(1,413)
Exchange adjustments	–	62	62
At 31 December 2010	**5,317**	**42,208**	**47,525**
Provisions for impairment			
At 1 January and 31 December 2010	**1,670**	**35,575**	**37,245**
Net Book value			
At 31 December 2010	**3,647**	**6,633**	**10,280**
At 31 December 2009	3,370	8,261	11,631

3. Fixed asset investments continued

Investments in subsidiaries and loans have been written down to recognise losses in subsidiary companies.
The following were subsidiary undertakings at the end of the year and have all been included in the consolidated accounts.

Name	Country of Operation	Proportion of voting rights and Ordinary share capital Held	Nature of business
Advanced Medical Solutions Limited	England	100%	Development and manufacture of medical products
Advanced Medical Solutions (UK) Limited	England	100%	Holding Company
Advanced Medical Solutions Trustee Company Limited	England	100%	Trustee Company
Advanced Medical Solutions (Plymouth) Limited – formerly MedLogic Global Limited	England	100%	Development and manufacture of medical products
Advanced Healthcare Systems Limited	England	100%*	Dormant
Advanced Medical Solutions Group Inc.	USA	100%†	Holding Company
Advanced Medical Solutions (US) Inc.	USA	100%§	Development and manufacture of medical products
MedLogic Global Holdings Limited	England	100%¶	Holding Company
Innovative Technologies Limited	England	100%‡	Dormant
Advanced Medical Solutions B.V. – formerly Corpura B.V.	Netherlands	100%	Development and manufacture of medical products

* Held indirectly through Advanced Medical Solutions Limited.
‡ Held indirectly through MedLogic Global Holdings Limited.
† Held indirectly through Advanced Medical Solutions (UK) Limited.
§ Held indirectly through Advanced Medical Solutions Group Inc.
¶ Held indirectly through Advanced Medical Solutions (Plymouth) Limited.

The above table reflects the situation at the year-end.

4. Debtors

	2010 £'000	2009 £'000
Due within one year		
Prepayments and accrued income	**21**	284
Other debtors – leasehold rental deposit	**30**	200
Amounts due from subsidiary undertakings	**339**	–
	390	484

5. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Bank overdraft	**141**	–
Trade creditors	**154**	33
Accruals and deferred income	**120**	1,500
Tax payable	**–**	1
	415	1,534

Notes to the Company Financial Statements continued

Year ended 31 December 2010

6. Share capital

Details on the share capital of the Company are provided in note 31 to the Group's accounts.

7. Reserves

	Share-based payments £'000	Investment in own shares £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2010	502	(27)	99	2,866	3,440
Share-based payments	282	–	–	–	282
Share options exercised	(342)	–	207	–	(135)
Shares purchased by EBT	–	(191)	–	–	(191)
Shares sold by EBT	–	181	–	–	181
Consolidated loss for the year	–	–	–	(1,062)	(1,062)
At 31 December 2010	**442**	**(37)**	**306**	**1,804**	**2,515**

8. Share-based payments

The charge for share-based payments under FRS20 arises across the following schemes:

	2010 £'000	2009 £'000
Unapproved Executive Share Option Scheme and Enterprise Management Incentive Scheme	**62**	29
Long-Term Incentive Plan	**101**	101
Deferred Share Bonus Scheme	**119**	72
	282	202

Details on the share-based payments of the Company are provided in note 34 on page 62 in the notes to the Group's accounts.

Five Year Summary

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Condensed consolidated income statement (pre-exceptional items)					
Revenue	**31.9**	24.1	20.3	16.9	14.3
Profit from operations	**5.3**	4.1	2.7	1.7	0.5
Finance income	**–**	–	0.3	0.3	0.1
Profit attributable to equity holders of the parent	**5.8**	4.5	3.3	2.2	0.7
Basic earnings per share	**3.8p**	3.1p	2.3p	1.6p	0.5p
Condensed consolidated statement of financial position					
Net assets employed					
Non-current assets	**20.3**	17.7	9.8	6.5	6.0
Current assets	**12.7**	12.1	14.7	12.7	10.0
Total liabilities	**(5.2)**	(6.9)	(4.6)	(3.5)	(3.0)
Net assets	**27.8**	22.9	19.9	15.7	13.0
Shareholders' equity					
Share capital & investment in own shares	**7.7**	7.2	7.2	7.1	11.8
Share-based payments reserve	**0.4**	0.5	0.3	0.2	–
Share-based payments deferred tax reserve	**0.4**	0.6	0.6	0.3	0.1
Share premium account	**0.3**	0.1	–	–	38.0
Other reserve	**1.5**	1.5	1.5	1.5	1.5
Translation reserve	**–**	0.3	0.4	–	–
Retained equity	**17.5**	12.7	9.9	6.6	(38.4)
Equity attributable to equity holders of the parent	**27.8**	22.9	19.9	15.7	13.0

Advisors

Nominated Advisor and Broker
Investec
2 Gresham Street,
London EC2V 7QP

Auditor
Deloitte LLP
Chartered Accountants and
Statutory Auditor
P.O. Box 500,
2 Hardman Street,
Manchester M60 2AT

Solicitors
Wragge & Co
55 Colmore Row,
Birmingham, B3 2AS

Registrars and Transfer Office
Capita Registrars
The Registry,
34 Beckenham Road,
Beckenham,
Kent, BR3 4TU

Bankers
Lloyds TSB
Norfolk House,
7 Norfolk Street,
Manchester, M2 1DW

Patent Attorneys
Marks & Clerk
Manchester Office,
Sussex House,
83-85 Mosley Street,
Manchester, M2 3LG

Foley & Lardner, LLC
Building 3, Palo Alto Square,
3000 El Camino Real,
Palo Alto, CA 94306

Public Relations
Tavistock Communications
131 Finsbury Pavement,
London, EC2A 1NT

Notice of Meeting

Notice is hereby given that the seventeenth Annual General Meeting of the Company will be held at 11.00 am on 8 June 2011 at Macdonald Portal Hotel, Cobblers Cross Lane, Tarporley, Cheshire, CW6 0DJ.

As ordinary business:

1. To receive the Report of the Directors and the Financial Statements of the Company for the year ended 31 December 2010 (together with the report of the auditor thereon).
2. To approve the Directors' Remuneration Report for the year ended 31 December 2010.
3. To reappoint Deloitte LLP as auditor and to authorise the directors to fix their remuneration.
4. To re-elect Stephen Bellamy, (who retires by rotation in accordance with the Articles of Association) as a director of the Company.
5. To re-elect Dr. Don Evans, (who having been a director of the Company for more than ten years and is now Non-Executive Chairman, retires and is proposed for re-election each year) as a director of the Company.
6. To declare a final dividend of 0.38p per ordinary share, payable on 10 June 2011 to shareholders on the register at close of business on 13 May 2011.

As special business:

To consider and, if thought fit, to pass Resolution 7, which will be proposed as an Ordinary Resolution, and Resolutions 8 and 9, which will be proposed as Special Resolutions.

7. To authorise the directors generally and unconditionally for the purposes of section 551 of the Companies Act 2006 (the '2006 Act') to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company (each an allotment of 'relevant securities') up to an aggregate nominal amount of £2,580,329 provided that this authority is for a period expriring upon the earlier of the date of the Company's next Annual General Meeting and fifteen months after the date of the passing of this Resolution but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all subsisting authorities, to the extent unused.
8. Subject to the passing of resolution 7 above, to authorise the directors pursuant to section 570 of the 2006 Act to allot equity securities (within the meaning of section 560 of the 2006 Act) wholly for cash pursuant to the authority conferred by resolution 7 above as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
   (a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange;
   (b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £774,098; and
   (c) which shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and fifteen months after the date of the passing of this Resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.
9. That the Company is hereby generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of any of its ordinary shares of 5p each in the capital of the Company on such terms and in such manner as the directors may from time to time determine provided that:
   (a) the maximum number of ordinary shares which may be purchased is 7,740,980;
   (b) the minimum price which may be paid for each ordinary share is 5p which amount shall be exclusive of expenses, if any;
   (c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than 5% above the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased;
   (d) unless previously renewed, revoked or varied, this authority shall expire at the end of the 2012 AGM; and
   (e) under this authority the Company may make a contract to purchase ordinary shares which would or might be executed wholly or partly after the expiry of this authority, and may make purchases of ordinary shares pursuant to it as if this authority had not expired.

By order of the Board

Mary Tavener
Company Secretary
20 April 2011

Registered office:
Premier Park, 33 Road One, Winsford Industrial Estate,
Winsford, Cheshire, CW7 3RT.

Notice of Meeting continued

Notes

1. A member entitled to attend and vote at the meeting convened by the notice set out above may appoint a proxy to attend, speak and, on a poll to vote in his place. A holder of more than one ordinary share may appoint different proxies in relation to each or any of those ordinary shares.

2. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy notice must be given to the Company's Registrars not later than 48 hours before the time appointed for the holding of the meeting.

3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out at note 1 of the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

4. On a vote on a resolution on a show of hands at the meeting, a proxy has one vote for and one vote against if the proxy has been appointed by more than one member and the proxy has been instructed by one or more of the members to vote for the resolution and by one or more other member to vote against it.

5 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

6. A form of proxy is enclosed for use by members. To be effective, it must be completed and arrive not later than 48 hours before the time fixed for the Meeting at Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. You may also deliver by hand to The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU during usual business hours.

7. The register of directors' interests in the shares of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (public holidays excepted) until the date of the Meeting and also on that date and at the place of the Meeting from 9.00 a.m. until the conclusion of the Meeting.

8 The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the Register of Members of the Company as at 6:00 p.m. on 6 June 2011 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their names at that time. Changes in the entries in the relevant register of Securities after 6:00 p.m. on 6 June 2011 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Notes on special business

Resolution 7: Authority to Allot Shares and other relevant securities

This resolution would give the directors the authority to allot ordinary shares up to an aggregate nominal amount equal to £2,580,329 (representing 51,606,580 ordinary shares of 5p each). This amount represents approximately one-third of the issued ordinary share capital of the Company as at 20 April 2011, the latest practicable date prior to publication of this Notice.

The authority sought under this resolution will expire at the conclusion of the annual general meeting of the Company held in 2012 or, if earlier, 15 months after the passing of the resolution.

While the Directors have no present intention of issuing any of the authorised but unissued share capital, it is considered prudent and appropriate to maintain the flexibility that this authority provides.

Resolution 8: Disapplication of Pre-emption Rights

Your directors also require additional authority from shareholders to allot shares or grant rights over shares or sell treasury shares where they propose to do so for cash and otherwise than to existing shareholders in proportion to their existing holdings. Accordingly, Resolution 8 will be proposed as a special resolution to grant such authority. Apart from rights issues, open offers or any other pre-emptive offer as mentioned the authority will be limited to the issue of shares and sales of treasury shares for cash up to an aggregate nominal value of £774,098 (being 10% of the Company's issued ordinary share capital at 20 April 2011, the latest practicable date prior to publication of this Notice). This is in keeping with the extent for which such authority has been sought and given at each previous Annual General Meeting of the Company since 2006.

Allotments made under the authorisation in paragraph (a) of Resolution 8 would be limited to allotments by way of a rights issue only (subject to the right of the directors to impose necessary or appropriate limitations to deal with, for example, fractional entitlements and regulatory matters).

If given, this authority will expire at the conclusion of the annual general meeting of the Company held in 2012 or, if earlier, 15 months after the passing of the resolution.

Notes on special business continued

Resolutions 9: Purchase by the Company of its own Shares

In certain circumstances, it may be advantageous for the Company to purchase its own shares. Under Section 701 of the Companies Act 2006, the directors of a company may make market purchases of that company's shares if authorised to do so. Your directors believe that granting such approval would be in the best interests of shareholders in allowing directors the flexibility to react promptly to circumstances requiring market purchases.

Accordingly, Resolution 9, which will be proposed as a special resolution, will give the directors the authority to purchase issued shares of the Company under Section 701 of the Companies Act 2006.

The authority contained in this resolution will be limited to an aggregate nominal value of £387,049 (representing 5% of the issued ordinary share capital of the Company as at 20 April 2011 the latest practicable date prior to publication of this Notice; representing 7,740,980 ordinary shares of 5p each). The price which may be paid for those shares is also restricted as set out in the resolution.

This authority will expire at the conclusion of the annual general meeting of the Company held in 2012.

The Board has no present intention of exercising this authority. However, this will be kept under review, and the Board will use this power only if and when, taking account of market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Group, they believe that the effect of such purchases will be in the best interests of shareholders generally and that they will result in an increase in earnings per share.

Shares purchased under this authority may be held as treasury shares. The Company may purchase and hold shares as treasury shares up to a maximum equal to 10% of the nominal value of the issued ordinary share capital at that time, rather than cancelling them. Shares held in treasury do not carry voting rights and no dividends will be paid on any such shares. Shares held in treasury in this way can be sold for cash or cancelled. This would allow the Company to manage its capital base more effectively and to replenish its distributable reserves.

If and when the Board resolves to exercise its authority to make market purchases, it will at that time decide whether shares purchased are to be cancelled or held in treasury.

As at 20 April 2011, the latest practicable date prior to publication of this Notice, there were share options outstanding over ordinary shares, representing 4.6 % of the Company's issued ordinary share capital. The Company has no warrants in issue in relation to its shares. If the buyback authority was to be exercised in full, these options would represent 5.1% of the Company's ordinary issued share capital.

Notes

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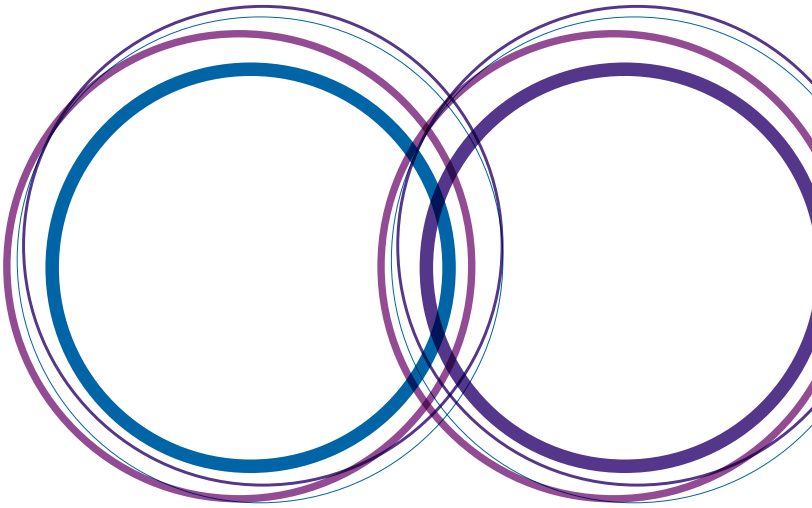

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